

AGENDA

KANSAS LOTTERY GAMING FACILITY REVIEW BOARD

8:30am, Wednesday, February 20, 2008

SRS Strategic Development/ SRS Learning Center

2600 SW East Circle Drive South

Topeka, Kansas

A. CALL TO ORDER

B. APPROVAL OF THE AGENDA

C. APPROVAL OF MINUTES

- a. January 29, 2008

D. BOARD ITEMS

1. Introduction of and presentation by William Eadington, Ph.D., professor of economics, University of Nevada-Reno and consultant to the Lottery Gaming Facility Review Board

- a. Economics Of Casino Gaming
- b. Rules for Estimating Market Potential
- c. History of Casino Bidding Process
- d. American Casino Bidding Process: Issues that may arise in Kansas
- e. Other Jurisdictions
- f. Outlining the Process
- g. Structuring the Necessary Information
- h. Identifying the Elements of Successful Outcomes

2. Discussion, consideration and possible action on retaining Candace Evart of Meridian Business Advisors, Reno, Nevada, and Richard Wells of Wells Gaming Research, Reno, Nevada, as Review Board consultants.

Staff Presentation: Stephen Martino

Evart/Wells Proposal, CV's and Materials: Attached

3. Discussion, consideration and possible action on retaining James Proctor of James Proctor Consulting Services, Lawrence, Kansas, as a Review Board consultant.

Staff Presentation: Stephen Martino

Proctor Proposal and CV: Attached

4. Discussion, consideration and possible action on retaining William Cummings of Cummings Associates, Arlington, Massachusetts, as a Review Board consultant.

Staff Presentation: Stephen Martino

Cummings Proposal, CV and Materials: Attached

5. Discussion, consideration and possible action on retaining Probe Strategic Solutions, Las Vegas, Nevada, as a Review Board consultant.

Staff Presentation: Stephen Martino

Probe Strategic Solutions Proposal, CV and Materials: Attached

E. PUBLIC COMMENTS

F. STAFF REPORTS

1. Executive Director

2. Chief Gaming Officer

3. Assistant Attorney General

4. Director of Administration

G. EXECUTIVE SESSION FOR ATTORNEY-CLIENT COMMUNICATION

H. OTHER MOTIONS

I. ADJOURNMENT

OUTLINE FOR PRESENTATION:

FUNDAMENTALS OF CASINO BIDDING PROCESSES

A presentation to the State of Kansas Racing and Gaming Commission Review Board

by William R. Eadington, Ph.D.

February 20, 2008

THE ECONOMICS OF CASINO GAMBLING IN SUPPLY-CONSTRAINED OR RESTRICTED MARKETS

- Supply, demand, and profitability
- Market structure, ownership conditions, and their implications
- The concept of economic rents and rent-seeking behavior
- The value of an exclusive casino gaming license
- The role of the State and of the Review Board in allocating gaming licenses

RULES OF THUMB IN ESTIMATING THE POTENTIAL OF THE MARKET

- What is the potential of a regional casino market?
- How important are economies of scale, non-gaming assets, and marketing strategies?
- What can be said about unintended social consequences of gambling?

HISTORY OF CASINO BID PROCESSES AND GENERAL IMPRESSIONS

- Australia and New Zealand: Casino bids in Perth, Gold Coast, Brisbane, Melbourne, Sydney; Auckland and Christchurch
- South Africa: Casino bids in Gauteng, Western Cape, Eastern Cape, Kwazulu Natal
- United Kingdom: Competition for sites for the Regional Casinos
- Ontario: Bids in Windsor, Rama, Niagara Falls
- Macau: Moving from monopoly to multiple concessions
- Singapore: Integrated resorts and transparent processes

AMERICAN CASINO BID PROCESSES AND LICENSE ALLOCATIONS: SUCCESSES AND FAILURES, AND ISSUES THAT MIGHT ARISE IN KANSAS

- Louisiana: Mistakes made for the monopoly casino and in the allocation of riverboat gaming licenses
- Detroit: favoritism allowed for particular groups
- Missouri and Iowa: Implicit constraints on permitted licenses
- Pennsylvania: Regional monopolies with high tax rates for slot-machine casinos

OTHER JURISDICTIONS CONFRONTING SIMILAR ISSUES, AND THEIR APPROACHES

- Massachusetts: seeking legislation for three regional casinos
- Maryland: pressure for race track casinos
- Texas: race track interests and tribal gaming

OUTLINING THE PROCESS: PERSPECTIVE FROM AN OUTSIDER

- The role of the Lottery Commission and of local government bodies
- The role of the Racing and Gaming Commission and of the Review Board

STRUCTURING THE NECESSARY INFORMATION FOR A PROPER REVIEW PROCESS

- Defining explicit objectives for the State
- Noting the information that has already been submitted by the eligible candidate companies
- Establishing minimum standards to apply to each of the eligible candidate companies
- Classifying the criteria from which a final decision will be made for each particular jurisdiction

IDENTIFYING THE ELEMENTS OF SUCCESSFUL OUTCOMES

- How well does the selected management contract company fulfill the explicit objectives of the State?
- How defensible was the process against claims of unfairness, favoritism, or impropriety?
- How likely is it that the voters and the political leaders are going to be satisfied with the process five years from now?

ADVANCED READINGS (Included in the packet):

Note: The purpose of these documents is to give the Review Board a flavor of the kinds of issues that they will encounter in going forward with the process. Some of the readings may prove more valuable than others, but many of them can be reviewed quickly and then set aside for later reference.

- 1. Looking at other bidding processes**
 - a. RFP NOTES 2-7-08 (Generic instructions to bidders)
- 2. Articles on the economics of casinos and of the Bid Process**
 - a. Eadington, THE ECONOMICS OF CASINO GAMBLING
 - b. Mills, SELECTING AN OPERATOR IN A LIMITED GAMING ENVIRONMENT
 - c. Williams, THE BID PROCESS FROM THE COMPANY'S PERSPECTIVE
 - d. Evart, ANTICIPATING IMPACTS ON THE HOST COMMUNITY
- 3. Understanding economic forces and avoiding mistakes: Clippings from other jurisdictions**
 - a. Genting Sentosa Win JP Morgan 2006
 - b. BID CLIPPINGS

ELEMENTS OF RFPs WORTH NOTING FOR KANSAS

The following text is drawn from a number of publicly disclosed REQUESTS FOR PROPOSALS and other bidding documents from various jurisdictions. These have been edited to remove materials irrelevant for Kansas. Some of the place-names and other identifiers have been removed, as some phrases or titles have been changed when appropriate.

Birmingham (UK)

2. Management Contract Candidates are advised to ensure that they are fully familiar with the nature and extent of the obligations to be accepted by them if their Contracts are accepted.
3. Management Contract Candidates shall obtain for themselves at their own expense all information Review Boardessary for the preparation of their Contracts.
4. If a Management Contract Candidate is in doubt as to the interpretation of any part of the documents, the "the Authorized Officer" or his nominated representative will endeavor to answer written enquiries prior to Contracts being submitted. The nominated representative is XX and enquiries should initially be addressed to the nominated representative. The answers will be in writing and will be sent to all other Management Contract Candidates.
5. In addition to the provisions of 4 above, each Management Contract Candidate will be given the opportunity to attend at least one mid-tender meeting with the State and the Review Board. The purpose of the meeting will be to enable the Management Contract Candidate to raise any questions about any aspect of this Invitation to Tender. The meeting will take place at a time determined by the State and the Review Board but regard will be had to the preference for a time expressed by the Management Contract Candidate. The meeting shall take place at XXX and the meeting will be recorded by a note taker. If any information is supplied by the State or the Review Board at any mid tender meeting which the State reasonably believes would be of interest to other Management Contract Candidates then the other Management Contract Candidates will be notified in writing if the State considers that it would be right to do so.
6. Management Contract Candidates should not rely on any information received other than that supplied by the State in these Tender Documents or other information in written form from the Authorized Officer or his nominated representatives or from XXX of the Review Board team. If any information is supplied by the State, his Authorized Officer or the Review Board which the State reasonably believes would be of interest to other Management Contract Candidates then the other Management Contract Candidates will be notified if the State considers that it would be right to do so. The State will not, however, accept responsibility for any information supplied.
7. The Tender Documents are and shall remain the property of the State and shall be returned with the Tender if no Tender is submitted upon demand.
8. The Tender Document shall be fully completed and signed by the Management Contract Candidate in accordance with Clause 18 and submitted in the manner and by the date and time stated in Clause 19.

9. All information supplied by the State and/or the Review Board in connection with this Invitation to Tender shall be regarded as confidential by the Management Contract Candidate (except only that such information as is necessary may be disclosed for the purposes of obtaining quotations necessary for the preparation of the Tender).

10. The State and the Review Board will not disclose any information received from any Management Contract Candidate other than to each other unless required to do so by any statutory provision or otherwise in accordance with the non-disclosure agreement executed by the parties. In this respect the State is required to observe the provisions of the Freedom of Information Act and these provisions give the right to any person to request information from the State about its activities subject to a number of statutory exemptions.

11. If a Management Contract Candidate considers that any part of its tender (other than price) is confidential then it should appropriately mark that part of its document and explain the justification for so doing. Management Contract Candidates should be aware that it is in all circumstances inappropriate merely to mark all parts of a tender as confidential.

12. If the State receives a request for disclosure of information relating to any Tender it will first give the Management Contract Candidate an opportunity to make representations concerning such a request provided that such representations are received within 10 working days after the issue of such a request. If no response is received within this period the State may determine that the information is not confidential. Management Contract Candidates should appreciate that a failure to provide an adequate detailed response will be likely to lead to the information being disclosed.

13. If a Management Contract Candidate objects to disclosure then the State will consider if any of the information requested is protected by confidentiality or falls within any of the statutory exemptions. Consideration will be given in response to a request for information as to whether information may be disclosed with those parts which are confidential appropriately deleted or redacted. Management Contract Candidates should note that the State will be unlikely to accede to requests for disclosure of information contained in a tender (in particular relating to price) before the evaluation of the Contracts and the award or conclusion of the tender process since such disclosure may be prejudicial to the tendering process because of its impact on competition.

14. No employee or agent of the State has the authority to vary or waive any part of the Tender Documents, other than the Authorized Officer or his nominated representative who shall only do so in writing.

15. Any Management Contract Candidate who directly or indirectly canvasses any member, agent or officer of the State or any agent, officer or director of the Review Board concerning the award of the Preferred Party Status will be disqualified.

16. The State shall not be bound to accept any condition attached to any Tender or any revision to the Tender documents. The acceptance of any condition or revision shall be in the absolute discretion of the State.

17. All documents requiring a signature shall be signed:-

17.1 Where the Management Contract Candidate is an individual, by that individual.

17.2 Where the Management Contract Candidate is a partnership or a limited partnership, by two duly authorized partners.

17.3 Where the Management Contract Candidate is a limited liability partnership, by two duly authorized members.

17.4 Where the Management Contract Candidate is a company by two directors or by a director and the secretary of the Company, such persons being duly authorized for that purpose.

18. The tendering timetable is as follows:-

TENDERING TIMETABLE	
1 October 2007	Closing date for the receipt of Contracts
8 to 19 October 2007	Tender Interviews

SINGAPORE REQUEST FOR CONCEPT (RFC) February 2005

The Singapore Government is considering the development of an Integrated Resort (IR) – a distinctive, world-class development with a comprehensive range of amenities which may include hotels, convention facilities, retail and food & beverage outlets, venues for international shows, themed attractions and a casino.

- 1.2 The Singapore Tourism Board, acting for and on behalf of the Government, has launched this Request for Concepts (RFC) to invite prospective IR investors to submit their concept proposals. Depending on the strength of the concepts received, the RFC will be followed by a Request for Proposals (RFP), where selected investors will be invited to submit their investment proposals and business plans.

2 Objectives of the RFC

2.1 The objectives of the RFC are:

- a) To identify interested and serious investors who are keen to develop an IR in Singapore which is in line with the desired outcomes;
- b) To ascertain the development concept(s) and size of investment to allow the Government to make an informed decision whether to proceed with the IR project, and if yes, on the more appropriate site(s); and
- c) To provide prospective investors with an opportunity to provide considered views on the feasibility of the Government's conditions and requirements for the IR.

Desired Outcomes

- 3.1 The IR is envisaged to be a large-scale iconic lifestyle product that will enhance Singapore's reputation as a premium "must-visit" destination for leisure and business visitors. It is part of Singapore's tourism strategy to attract a larger number of regional and international visitors and sharpen Singapore's competitiveness vis-à-vis competing destinations. The development is expected to broaden Singapore's leisure and entertainment options, as well as complement existing tourist attractions.

The IR is expected to generate significant additional economic benefits, specifically, tourism receipts and job creation. It would catalyze the development and growth of Singapore's tourism industry and enhance Singapore's aviation hub status. There could also be spin-offs to the other sectors of the economy.

Specifically, the Government is looking to:

- a) Increase tourism receipts dramatically, through higher visitor arrivals, longer lengths of stay, and higher visitor spending;
- b) Ensure that resident gaming participation remains a small proportion of total gaming revenues;
- c) Ensure that the IR has a compelling mix of non-gaming attractions, with gaming revenues as a minority component of total IR revenues; and
- d) Ensure that the successful Proposer is committed to making this IR development their flagship IR property in Asia, in terms of design, scale, size of visitor catchment area and investment committed.

The IR will enhance Singapore's image and reputation as a dynamic tourism destination. It should not erode Singapore's position as a trusted financial centre in the world nor compromise Singapore's reputation of being a safe and attractive place to live, work and do business.

The development of the IR should blend in and dovetail with the planned development or surroundings of the site and contribute to the buzz of activities and attractions planned around the location.

Conditions & Requirements for the IR Development

The Proposers should comply with the following conditions and requirements when developing their concepts for the IR. Note that Sections 4.2 to 4.10 apply to the casino component of the IR development.

- 4.1 Land Premium & Lease Term. Land for the IR will be made available based on its fair market value. The lease period for both Marina Bayfront and Sentosa sites is for 60 years.
- 4.2 Gaming concession. To ensure comparability between RFC submissions, Proposers should assume that there will be one gaming concession granted for 30 years with an exclusivity period of 10 years, from the date of execution of the contract awarding the concession to the successful Proposer. No upfront gaming concession fees will be imposed and no sub-concession(s) will be allowed. The concession will be non-transferable unless explicit consent from the Government is obtained. Not later than 5 years prior to the expiry of the term of the concession, the Government will advise the concessionaire whether it intends to renew the concession and if so, for what duration. The Government reserves the right to renew the concession on such terms it deems appropriate.
- 4.3 Tax rates on gaming revenue. The IR will be subject to a casino gaming tax of 15% of all monthly gross gaming revenue (GGR) from the casino, except for GGR attributable to premium (VIP) players which will be taxed at 5% instead. This tax rate on GGR will remain unchanged for the duration of the exclusivity period. The prevailing Goods and Services Tax (GST) will be applicable to all goods and services provided by the IR, including casino gaming. The IR will be subject to all other direct and indirect taxes applicable from time to time to all companies. Proposers may wish to refer to Annex B for a summary of salient features of the Singapore tax system, including corporate tax, property tax, withholding tax and allowances.
- 4.4 Gaming revenue as a minority component of total IR revenues. The IR should have a compelling mix of non-gaming attractions, with gaming revenues as a minority component of total IR revenues. A surcharge may be imposed on any GGR exceeding 50% of total annual IR revenues. This surcharge will take effect 5 years from the date of commencement of the concession.
- 4.5 Cap on size of gaming area. The maximum allowable gaming area will be 15,000 square metres of gross floor area. Concept drawings should clearly define the gaming premises and the proposed gaming area for both regular and premium players.
- 4.6 Law and Order. A robust and stringent regulatory regime will be developed in Singapore. Similar to those imposed in leading global gaming jurisdictions, a set of strict international regulatory standards such as measures against money laundering, illegal money-lending, licensing and screening of operators and employees will be imposed.

4.7 Fair and honest gaming operations. A minimum return to play of 90% for gaming machines will be imposed. In addition, a set of regulations, in line with international standards, will be imposed on both table games and slot machines.

4.8 Prohibited gaming products. The following gaming products will be prohibited:

- 4D

- Toto

- Singapore Sweep

Sports betting

- Horse racing

- Remote gaming, i.e. internet and all forms of gaming enabled by telecommunications devices shall not be hosted or conducted in a casino in Singapore.

4.10 Social safeguards. The following social safeguards will be imposed:

4.10.1 Minimum age requirement: Admission to the casino will be restricted to persons aged 21 years and above.

4.10.2 Admission of Singapore residents by membership. Admission to the casino area by Singapore residents (defined as Singapore citizens and permanent residents) is by membership only. For each day membership, Government will levy a fee of S\$100. For each annual membership, Government will levy a fee of S\$2,000. The casino concessionaire may wish to impose any other membership criteria as they deem fit. For the avoidance of all doubt, such membership levies will not be imposed on non-resident casino patrons.

4.10.3 Exclusion. Casino employees shall be excluded from gambling in the casino. There shall be a self-exclusion facility, which allows voluntary application by any person to exclude himself or herself from the casino. There shall also be a facility for close family members to exclude persons with gambling problems from the casino.

4.10.4 Control of credit granted by casino. Casino credit may not be extended by the casino concessionaire or its agents to any Singapore resident, with the exception of premium players. Credit may be granted to players who are non-residents.

4.10.5 Voluntary Loss-limits. The casino shall propose and implement a system to allow Singapore residents to voluntarily specify loss-limits for a certain duration (e.g. through the use of smart-cards).

4.10.6 Control of gaming machines. The maximum number of gaming machines allowed is 2,500. Gaming machines should be designed without bill acceptors.

4.10.7 Patron Education on Gambling and Problem Gambling. The casino must display at prominent areas within the casino information on problem gambling and help services. Information on rules of games and odds of winning must be displayed prominently. The casino must also train casino staff about problem gambling and its detection, and how to deal with casino patrons whose behaviour clearly suggests that he is at risk with excessive or problem gambling.

4.10.8 Prohibition on advertising. Advertisements and marketing promotions with reference to the casino or casino gambling in the local mass media will be prohibited.

5 Scope and Content of Submission

5.1 In developing their RFC submissions, it is expected that Proposers should adhere to the conditions and requirements as set forth in Section 4 of this RFC. Failure to submit a complete concept proposal may mean disqualification from the RFP. It is expected that the Proposers cover at least the following areas in their RFC submission:

5.1.1 Target customers and profile. This should be broken down by resident and non-resident visitations (non-resident visitation should be broken down by source) and their anticipated spending patterns (broken down by gaming and non-gaming components of the IR).

5.1.2 Concept of the development. This should include a full conceptual plan and details of the underlying theme for the IR, including the development model appropriate to capture the projected target market demand. Concepts should include, but need not be limited to:

- a) The development model(s) for an IR appropriate for the needs of Singapore; and
- b) Details of the scale, composition and capacity of the development, including facilities such as hotels, theatres, convention centres, retail and food & beverage outlets, themed attractions, and other recreational and entertainment facilities, including a casino.

5.1.3 Physical layout and design. To comprehensively establish the site layout and design details for the IR for either, or both, of the proposed sites identified, namely Marina Bayfront and Sentosa. Based on the development requirements set out in Annexes A-1 and A-2, the following should be provided:

- a) Conceptual master plan, at a scale of 1:2000, showing design concept, parcellation plan, development intensity, building heights, detailed breakdown of proposed uses, development quantum for the IR development, and phasing

5.1.4 Casino games offered. The types of casino games which the Proposer intends to offer should be provided, together with a description of the games and the gaming win ratios.

5.1.5 Economic benefits. The economic benefits, of the project, to Singapore, should be detailed, including anticipated tourism receipts, employment generation, value-added and such other economic benefits (for example, estimated tax revenue) as a Proposer may consider appropriate to support its proposal, taking into consideration the desired outcomes of the IR. Economic spin-offs to other sectors may also be detailed in the RFC submission.

5.1.6 Size of investment and Business spending. This should include the anticipated development costs and total business spending, with a schedule with indicative timelines, broken down as follows:

plan;

b) Conceptual plans, sections and elevations, at a scale of 1:500, illustrating the provision for private and public open spaces between the buildings, attractions, and landscaping strategy, and the provisions for pedestrian connectivity between developments within the IR site, as well as to the adjacent open spaces, transport nodes, attractions at the waterfront, and within the park where applicable;

c) Description of the planning and design intention and philosophy for the IR development;

d) How the design of the proposed development relates to the larger context of the city or Sentosa Island, and how the development mix will enhance the area as a whole. This would include, but not be limited to, a detailed description of public attractions and facilities, the design and use of public spaces and the waterfront, staging of events and activities, and any other public infrastructure benefits or contributions (where relevant); and

e) Three-dimensional renderings to illustrate the spatial quality of all the proposed developments and spaces and of the form and massing of the development.

a) Detailed development costs including professional fees, building and fitting up costs, with schedule of disbursements;

b) Estimated running costs, such as operating and maintenance expenditures; and

c) Capital re-investments for the duration of the land lease.

5.1.7 Projected financial performance. This should include:

5.1.8 Schedule. An anticipated schedule for the development of the IR from procurement to design, master planning and completion of construction should be included with the RFC submission.

- a) Estimated revenues including the expected proportion of gaming and non-gaming revenue, broken down between resident and non-resident sources;
- b) Cash flow forecast for each component of the IR; and
- c) Financial analyses of the development proposals, with detailed computation of Internal Rate of Return and Net Present Value.

5.3.1 Experience of the Proposer. The experience and track record of each Proposer in the development and/or operation of each component of the concept proposed in its RFC submission should be detailed. This should include a description of all relevant projects undertaken, current operations and developments in which the Proposer is involved, and any such other experience as the Proposer may consider it appropriate to reference.

5.3.2 Financial Information. Proposers are not expected to provide detailed financial information in their RFC submissions. However, the RFC submission must provide detailed information concerning the following:

- a) The registered name, date and place of incorporation of the Proposer;
- b) The ownership structure, paid up capital, shareholders' funds, annual report (if any), latest financial statements as well as any information a Proposer may consider material for the assessment of its financial capacity; and
- c) The names of the top twenty shareholders and their corresponding equity holding and the names of directors should be included.

5.3.3 Joint Venture and Consortium Arrangement. Should two or more parties combine to form a joint venture or consortium arrangement, the RFC submission must clearly indicate their respective roles and investment, and the legal basis upon which they would be likely to structure their association. Where this RFC requires Proposer-specific information (e.g. in Section 5.3.2) that information must be provided for each member of the joint venture or consortium. Proposers are permitted to vary joint venture and consortium arrangements for their RFP submission.

Compliance with Instructions

3.1 Proposals will be accepted only if submitted according to these Instructions and in any other form(s) prescribed in the RFC. Any proposal which does not so comply is liable to be rejected.

4. Submission of Proposal

4.1 Proposers shall submit a typewritten concept proposal on how the Proposer will develop an Integrated Resort in XXX as provided in the Requirement Specifications at Section B of the RFC. Proposers should also include additional material as deemed Review necessary.

4.2 Failure to submit a complete concept proposal may mean disqualification from the Request for Proposal.

4.3 The proposal (with supporting brochures/handbooks) must be submitted in four (4) hard copies and two (2) soft copies in CD-ROM. All soft copies should be in their native application format as well as in PDF format. All proposals must be bound, and all pages in the proposal must be numbered. Any corrections or cancellations will not be accepted unless such corrections or cancellations have been initialed against by the Proposer. In the event of any discrepancy between the hard copies and the soft copies, The Review Board will consider the hard copies as definitive.

4.4 Proposal submissions must be enclosed in a sealed envelope and shall hand delivered and deposited at the tender box, at the following address up to 12:00 noon on 28 February 2005. When submitting the proposal the Proposer shall specify clearly on the centre of the envelope:

Concept(s) for an Integrated Resort

The name and address of the Proposer shall also be clearly indicated on the envelope.

4.5 Any proposal delivered after the stipulated closing date and time, arising from whatever causes, will not be accepted.

4.6 It will be the responsibility of the Proposer to ensure delivery of the proposal into the tender box. The Review Board shall not be held responsible for putting proposals received through the post into the correct tender box nor is the Review Board obliged to do so.

5. Ownership Status of Proposer

5.1 The Proposer shall provide full information on:

- (a) the name and address of any person, company or corporation, which owns, whether directly or indirectly, at least 50% of the total number of shares in the Proposer; and
- (b) the number, percentage and class of shares held by such person, company or corporation.

6. Acceptance of Proposal

6.1 The Review Board shall be under no obligation to accept any proposal. The Review Board shall not be obliged to enter into correspondence with any Proposer regarding the reasons for non-acceptance of a proposal.

6.2 The Review Board reserves the right, unless the Proposer expressly stipulates to the contrary in his proposal, of accepting such portion of each Proposal as the Review Board may decide.

7. Notification

7.1 Notification will not necessarily be sent to unsuccessful Proposers by the Review Board.

10. Ownership of Proposal Documents

10.1 All documents submitted by the Proposer in response to this RFC shall become the property of the Review Board. However, intellectual property in the information contained in the proposal submitted by the Proposer shall remain vested in the Proposer. This Clause is without prejudice to any provisions to the contrary in any subsequent contract between the Proposer and The Review Board.

10.2 The Review Board may require an unsuccessful Proposer to return any specifications, plans, drawings, patterns, samples or any other documents issued by The Review Board.

11. Presentation of Proposal

11.1 Unless requested by the Review Board, Proposers are not expected to present their proposals. In the event that a presentation is requested, a date and venue in XXX shall be determined and arranged by The Review Board. Any travel or accommodation expenses or any other expenses whatsoever related to the presentation incurred by the Proposer shall be borne by the Proposer.

12. Alteration, Erasures or Illegibility

12.1 Except for amendments to the entries made by the Proposer which are initialed by the Proposer, proposals bearing any other alterations or erasures and proposals in which prices are not legibly stated are liable to be rejected.

13. Proposer's Clarification of the RFC

13.1 Please note that clarifications, including any request for extension of proposal period, shall be submitted via e-mail to: XXX at least seven (7) working days before the closing date of the RFC. No variation to the RFC shall be effective unless such variation has been expressly accepted by The Review Board in writing.

14. The Review Board's Clarifications of the Proposal

14.1 In the event that the Review Board seeks clarification upon any aspect of the proposal, the Proposer shall provide full and comprehensive responses within seven (7) days of notification.

14.2 Any additional information or clarification of any part of the proposal submitted in writing by the Proposer shall become part of the proposal once accepted in writing by the Review Board, in its sole and absolute discretion.

15. Additional Conditions

15.1 The Review Board reserves the right to issue supplementary terms and conditions related to any part of this RFC any time prior to the Closing Date of the RFC.

15.2 The Review Board shall have the right to extend the Closing Date.

16. Expense of Proposer

16.1 Under no circumstances will any expense incurred by the Proposer in the preparation of the proposal be borne by the Review Board.

17. Canvassing

17.1 Canvassing shall render a Proposal invalid. In the event of any canvassing being discovered after the acceptance of the Proposal, The Review Board shall be entitled to reject any Proposal made without being liable to pay any damages or compensation.

18. Conflict of Interest

18.1 Proposers, where a conflict of interest may exist or arise, must inform the Review Board and submit proposals for avoiding such conflicts. This is particularly important where the conflict is likely to suggest a real danger of bias in the execution of the development of the IR in XXX.

19. Auditor-General

19.1 The attention of Proposers is drawn to the Audit Act, which provides for the audit of the accounts of XXX and of the other public authorities and bodies administering public funds and for matters connected herewith.

19.2 Proposers should obtain, and will be deemed to have obtained, their own advice on the impact of the Audit Act on their participation in this RFC.

20. Applicable Law

20.1 The RFC shall be governed by Kansas Law.

The Economics of Casino Gambling

William R. Eadington

Casino gaming has been a growth industry in the United States over the past three decades. The number of states permitting some form of casino gaming climbed from only one as recently as 1978 to approximately 27 by the end of the 1990s, and casinos could be found in destination resorts, in former mining towns, on riverboats, in urban or suburban settings, and on Indian reserves. In 1970, when casinos were legal only in Nevada, gross gaming revenues—the net amount of money won by casinos from all customers—was \$540 million; in 1997, it had grown to more than \$25 billion (Christiansen, 1998). The economic success of casino gaming has been reflected in the rapid growth of Nevada, which was among the three fastest growing states in the United States for each of the last four decades of the 20th century. Nevada's major city, Las Vegas, was one of the five fastest growing metropolitan areas in the country in each decade over the same period.

This recent expansion of casino gambling and commercial gaming is striking, and is illustrated in Table 1. It reflects the growing popularity of an activity that has long been condemned or at least frowned upon as being either a waste of time and resources, or a potential cancer on the fabric of society (Goodman, 1995). However, gambling and especially casino gaming have remained controversial. In 1996, motivated by pressure from anti-gambling groups as well as more general concerns, Congress mandated the National Gambling Impact Study Commission—with members including representatives from the casino industry, gaming regulators, labor unions, and Christian groups, among others—whose charge was to investigate the social and economic implications of gambling on society.¹

¹ The National Gambling Impact Study Commission came into existence with the passage of Public Law 104-169 (1996). The Commission's final report was released as this article was going to press. It is available, with other background material, at <<http://www.ngisc.gov>>.

■ William R. Eadington is Professor of Economics and Director, Institute for the Study of Gambling and Commercial Gaming, University of Nevada, Reno, and Visiting Professor, Centre for the Study of Gambling and Commercial Gaming, University of Salford, Salford, England. His e-mail address is <eadington@unr.edu>.

Table 1
Gross Revenues by Sector,^a U.S. Commercial Gaming
Industries, 1982 and 1997
(millions of 1997 dollars)

Sector	1982	1997	Average Growth Rate
Parimutuel ^b	\$4,644	\$3,811	-1.31%
Lotteries ^c	\$3,609	\$16,567	10.69%
Casinos ^d	\$6,985	\$20,528	7.45%
Bookmaking	\$43	\$96	5.46%
Card rooms	\$83	\$700	15.26%
Bingo, Charitable	\$1,956	\$2,430	1.46%
Indian gaming	\$0	\$6,678	-
Total	\$17,321	\$50,899	7.45%

^a Revenues retained by operators after payment of prizes.

^b Includes horse racing, dog racing and jai alai.

^c Includes video lottery terminals.

^d Excludes Indian casinos, but includes non-casino devices.

Source: Christiansen (1998, p. 11)

The purpose of this paper is to examine the major changes that have developed in the casino and gaming industries over the past 40 years, to lay out some of the economic principles that have shaped the development of permitted gaming, to discuss the public policy directions and controversies that have evolved with the expansion of legal gambling, and to provide some insight into the future directions of such gambling.

A Brief History of the Spread of Casinos in North America Since 1960

In the early 1960s, commercial gaming in the United States was at a low ebb. Lotteries had been prohibited throughout the country since before the turn of the century (Clotfelter and Cook, 1989). Casinos, off-track betting, bookmaking and sports wagering were illegal everywhere except Nevada.² The only major forms of permitted gambling were bingo and horse racing. Bingo was typically offered by churches and fraternal organizations, justifying itself as a soft form of gambling that provided socialization opportunities and raised money for good causes. With racing, one could make legal wagers only at race tracks with live racing in about 30 states. Even social gambling, like a poker game around the kitchen table, was illegal in many states (Ciaffone, 1991).

² There had been previous waves of legalization of gambling in America, followed by prohibition. Rose (1991, p. 75) describes the current expansion as the "third wave," and notes that in 1910, at the end of the "second wave," the only legal gambling that remained in the United States was horse race betting in Maryland and Kentucky.

Nevada, which had authorized casinos and other forms of gambling in 1931, was under siege from organized crime fighters from the Attorney General's office, the Justice Department, congressional committees, and the FBI in the 1950s and early 1960s. There was strong sentiment that Nevada had violated an implicit moral code against gambling to which all the other states had adhered, thus creating a safe haven for professional gamblers and casino operators who—in the eyes of critics—could only bring harm to society.⁵ Prior to the 1970s, the casino industry in Nevada could be characterized as a “pariah” industry (Skolnick, 1978). Though the industry was distinguished by high profits and economies of scale, it lacked access to mainstream sources of financial capital through either debt or equity markets, and therefore had to rely on creative, sometimes questionable, sources of financing in order to expand (Brill, 1978). Journalistic exposés of the day discussed in lurid detail corrupt and sensational events that surrounded the history of casinos in Las Vegas, and identified ties to various criminals and organizations (Reid and Demaris, 1963).

The legal climate for American casinos began to shift in the 1970s. In 1969, Nevada passed the Corporate Gaming Act, permitting publicly traded corporations to hold gambling licenses for the first time (Eadington, 1982). Within a few years, corporations with established reputations in other industries—such as Hilton, MGM, Holiday Inn, and Ramada—had entered the casino industry in Nevada.

In 1976, New Jersey's voters authorized casino gaming in Atlantic City, making it the second state with legal casinos. By the mid-1980s, the number of casinos operating in Atlantic City increased to twelve, and the volume of business—as measured by gaming winnings by operators—briefly eclipsed that of Las Vegas. By calendar year 1998, however, Las Vegas had regained the lead with gaming revenues of \$5.5 billion compared to Atlantic City's \$4 billion.

New Jersey took a different approach than Nevada to shaping its casino industry. Casino operations in Atlantic City had to be built to specific size and space allocation criteria, which limited potential investors to those organizations that could raise the requisite financial capital, and indicated from the outset that the industry would develop as an oligopoly. In contrast, Nevada has had few barriers to entry into its casino industry. Nonetheless, economies of scale and scope pushed the major Nevada casino markets in Las Vegas and Reno toward oligopolistic status as well, even though the state's major tourism areas continue to have large numbers of far less significant smaller casinos. In fiscal 1998, for example, Las Vegas had 78 unrestricted casino licenses, generating total revenues of \$9.1 billion, gaming revenues of \$4.9 billion and net income before federal income tax of \$860 million. However, the largest 21 Las Vegas Strip casinos accounted for 73 percent of these total revenues, 69 percent of gaming revenues, and 98 percent of profits (State Gaming Control Board, 1998).

A number of serious efforts were made to legalize casinos in other states between 1978 and 1988, including in Florida, New York, Colorado, Minnesota,

⁵ The Nevada casino industry's formative years have been popularized and romanticized (somewhat inaccurately) by such Hollywood movies as *Bugsy*, *Hoffa*, *The Godfather (I and II)*, and *Casino*.

Ohio, Pennsylvania, and Massachusetts, among others. Some of these efforts used the initiative or referendum process, while others tried legislative action, but all the campaigns fell short (Dombrink and Thompson, 1990). However, beginning in late 1988, three events set the stage for the rapid expansion of casinos and casino-style gaming. In October of that year, Congress passed the Indian Gaming Regulatory Act that defined the relationship of states to tribes in regulating Indian gaming within their borders (Eadington, 1990). In November, South Dakota voters authorized limited stakes gambling in the declining former mining town of Deadwood, South Dakota. Finally, in March 1989, the Iowa legislature authorized limited stakes casino gaming on riverboats on that state's waterways.

Over the next decade, casinos spread rapidly in response to these catalysts. Small stakes casinos were authorized by initiative in three rural mining communities in the mountains of Colorado in 1990 (Stokowski, 1996). Riverboat casinos were legalized in the states of Illinois, Mississippi, Louisiana, Missouri and Indiana between 1990 and 1993. Indian casinos opened in over 20 states between 1990 and 1997 (U.S. General Accounting Office, 1997). The cities of New Orleans (in 1992) and Detroit (in 1996) authorized land-based urban casinos; the resulting New Orleans monopoly casino went bankrupt in 1995 but was scheduled to re-open in 1999, and the three permitted Detroit casinos had not yet opened by mid-1999.

Commercial gaming also expanded in the 1980s and 1990s with the legalization of slot machines or other electronic gaming devices outside of casinos. Race tracks in Iowa, Delaware, Rhode Island, West Virginia, New Mexico and Louisiana commenced operations of electronic gaming at their facilities in the 1990s. Video poker machines appeared in bars and taverns or arcades in Montana, Louisiana and South Carolina. Under the guise of the state lottery, video lottery terminals—typically video poker machines without coin output—were introduced in Oregon and South Dakota. Race tracks and other businesses in various other states lobbied for permission to offer slot machines on their premises as well.

A number of factors contributed to the spread of casinos and casino-style gaming in the 1990s. The general apprehension about casino gaming that had dominated public attitudes in the United States gave way to greater public acceptance of gambling as a form of recreational activity, with corresponding changes in legal restrictions on gambling (Harrah's, 1997). As the ownership structure shifted to publicly traded corporations, the historic stigma that had long linked casino gaming to organized crime diminished considerably (Johnston, 1992). There was also a strong cross-border effect in the legalization process. When residents of one state where casinos were prohibited would travel to another state to partake in casino gaming, this export of spending, jobs and tax revenues encouraged states that were adjacent to those with permitted casinos to consider legalization. This was particularly the case with the various riverboat gaming jurisdictions.⁴

⁴ Competition among adjacent states or provinces for one another's citizens as customers (as in the United States, Canada and Australia) can lead to greater amounts of legalization of casinos than would be the case where such legislative decisions were made at a federal or national level (as in the United Kingdom) (Donahue, 1997, pp. 76–77).

The expansion of casino gaming in the United States has close parallels in other countries. Casinos had been prohibited in the United Kingdom until the 1968 Gaming Act provided a new legal basis for them (Kent-Lemon, 1984). Casinos in Australia were illegal until 1972, when enabling legislation at the state level authorized a single casino in Tasmania (Mossenson, 1991). In Canada, charitable casinos first appeared in western provinces in the late 1970s, when temporary casinos allowing small stakes betting to raise money for nonprofit enterprises were permitted at the annual summer exhibitions such as the Calgary Stampede and Edmonton's Klondike Days. Over time, the charitable casinos became less temporary, constraining regulations were relaxed, and regulatory authorities were established at the provincial level, thus paving the way for more substantial Canadian casinos in the 1990s (Campbell, 1994).⁵

Price and Pricing in the Casino Industry

In the United States, casinos generate the greatest proportion of their gaming revenues from slot machines and other gaming devices. In 1998, 65.3 percent of Nevada's gaming revenues came from slot machines and 30.6 percent from table games. In Atlantic City, slot machine winnings were 70.1 percent of total revenues in 1998, and in Colorado (with \$5 wagering limits), 94.5 percent was won by slot machines in 1998. This is a dramatic change over the past two decades. In 1980, for example, Nevada's table games accounted for 55.6 percent of the total gaming win.

The most popular casino table games are the traditional European games of blackjack, craps, roulette and baccarat. There are a few new casino games that have emerged in the past two decades, mainly card game variants of stud poker such as pai gow poker, Caribbean stud, three card poker, and Let It Ride. Pai gow, sic bo, and keno are all minor games that have Chinese origins. Pai gow is played with dominos, sic bo is played with three dice, and keno is a variant of the Lotto game offered by most state lotteries. For a full description of casino games and their strategies, see Vancura (1996).

The total amount of money wagered, which is the product of the average size of wager and the number of wagers made, is known in the gambling trade as the "handle." The actual amount of money lost by the player, or retained by the operator, is referred to as the "win." The actual win can be positive or negative at any particular (short term) gambling session. However, the house advantage is the

⁵ The cross-border effect was also an influence on the spread of casinos in Canada. The province of Ontario opened government-owned but privately-operated border casinos in Windsor and Niagara Falls in 1994 and 1996 respectively, primarily to cater to U.S. customers from the metropolitan areas of Detroit and Buffalo. The government-owned and -operated Quebec casino at Hull was positioned to draw customers from the neighboring metropolitan area of Ottawa, Ontario. Furthermore, various Canadian provinces permitted video lottery terminals to be widely placed in age-restricted locations such as bars and taverns during the 1990s.

price a customer pays on average to make, say, a \$1 wager, and it prevails in the long term.⁶

For most casino games, the house advantage can be measured with a probability analysis of the game, sometimes in combination with the strategies being used by the customer. Many casino games and gaming devices can be categorized as fixed odds games, where—because of the physical, mechanical or electronic methods used in determining the outcomes, along with the payout schedules—the player cannot alter the house advantage of specific wagers. Thus, in the long run, the players as a group will lose a fixed percentage of the handle. Games that involve betting on the turn of a wheel like roulette and wheel of fortune, or betting on throws of dice like craps or sic bo, and sometimes betting on hands of cards that are dealt, like baccarat, meet this description. Slot machines—at least those without progressive jackpots—are also fixed odds wagers betting against an electronically or mechanically determined outcome.

Games that use progressive payouts—where, for example, the jackpot prize increases as long as there is no winner—have house advantages that change as the size of the prize changes. Progressive payouts are used as enhancements with slot machines, lottery-style games such as keno, and side bets at some minor casino table games such as Caribbean Stud and Let It Ride. Of course, progressive payouts are also a major characteristic of popular lottery games such as Lotto (Clotfelter and Cook, 1989).

Some casino games have elements of strategy, which implies that players can influence the house advantage through their strategic decisions on size of wager or on the play of the game. Blackjack, pai gow, pai gow poker, and Caribbean stud are all examples of table games with some strategic dimensions. Video poker and its variants are examples of electronic gaming devices with strategic dimensions, in the sense that the player can either make choices in the course of playing the game or vary the amount of the bet when underlying conditions change. These would be classified as games of mixed chance and skill (Vancura, 1996).

All of the above are so-called “banked” games, where the customer is gaming against the casino. Contests between players—such as poker in casinos or card clubs, or pari-mutuel wagering at race tracks—are so-called “percentage” games. In such games, the operator of the contest will typically charge a commission on the handle or the winnings, extract a percentage of the handle, or charge a fee per hand or a seat-rental fee based on time at the game.⁷

Table 2 presents statistical properties of some of these games. The first column shows the house advantage; that is, the percentage the house takes out of a dollar

⁶ The house advantage is not to be confused with the “hold percentage,” a measure commonly used by casinos to monitor the performance of table games. Hold percentage is defined as the ratio of “win” to “drop,” where drop is the amount of chips purchased at the table and consequently, the amount of money or money equivalents placed in the “drop box” at the table.

⁷ These distinctions have some legal importance. In California, for example, banked table games are illegal but non-banked table games and pari-mutuel wagering structures are legal under certain circumstances. Therefore Indian tribes within the state have the right under the federal Indian Gaming Regulatory Act to offer non-banked games and pari-mutuel gambling schemes (Kelly, 1995).

Table 2
Statistical Properties of Select Casino Games and Devices
(assuming an initial wager of 1 unit)

Game	House Advantage ^d	Standard Deviation (One Wager) ^d	Standard Deviation (1,000 Wagers) ^d	Standard Deviation (House Advantage after 1,000 Wagers) ^d
Craps ^a	1.41%	1.0	31.6	3.16%
Blackjack ^b	0.50%	1.1	34.8	3.48%
Roulette (American) ^c	5.26%	5.7	179.8	17.98%
Roulette (European) ^c	2.70%	5.8	182.1	18.21%
Baccarat ^a	1.25%	1.0	31.6	3.16%
Pai Gow Poker ^b	2.50%	1.0	31.6	3.16%
Video Poker ^{b,e}	2%	2.3	73.7	7.37%
Slot Machines ^c	5%	10.6	335.2	33.52%
Keno	28%	42.3	1,336.3	133.63%

^a Standard wager.
^b Assumes the player plays optimal strategy with typical house rules.
^c Single number wagers.
^d Approximate.
^e Typical.

bet on average. The second column shows the standard deviation of a single wager (the square root of the average squared deviation of all possible outcomes from the house advantage). The third column shows the standard deviation of the actual aggregate outcome of 1,000 one unit wagers made at the game. The fourth column expresses the standard deviation of the actual outcome of 1,000 one unit wagers as a percentage of the handle, and thus notes the percentage deviation from the house advantage that can be expected.

The following illustration allows for an interpretation of these statistics. After 1,000 standard craps “pass line” bets (that is, betting the dice shooter will win), a player on average would be behind by 14 units (1.4 percent of the handle), with a standard deviation of 31.6 units (3.16 percent of the handle). Furthermore, because of the Central Limit Theorem, the aggregate outcome and mean of this game can be approximated by a normal distribution at this volume of play (Epstein, 1967).⁸ Based on this approximation, there is a 95.5 percent chance that after 1000 plays, the player’s actual performance will be somewhere between 49 units ahead of the game and 77 units behind (that is, the expected loss of 14 units plus or minus two standard deviations). The probability the player would be ahead at this point would be approximately 33 percent.

⁸ Random variables summarizing the outcomes for sequences of most “short odds” casino games can be described by the binomial distribution. For a large enough sample size—that is, *n* large enough to overcome skewedness—the binomial distribution is closely approximated by a normal distribution. A game is not “short odds” if it has very large payouts that correspond to very low probability events, in which case the number of plays must become considerably larger than 1000 before the binomial approximation truly applies. Of those games listed in Table 2, slots, video poker and keno would not be “short odds” games.

Various theories of gambling have been put forward. One view is that gambling is an example of socially unproductive profit seeking, because players whose predominant motivation for gambling is to increase their economic well-being are wasting their time due to the reality that, in the long run, they must lose (Grinols and Omorov, 1997). This is not too different than the 19th century argument put forward by Thorstein Veblen (1899), who posited that gambling makes people superstitious because they try to impute causality into events of pure chance. Because of that, a greater presence of gambling makes society (in the aggregate) "stupid" and reduces industrial efficiency because the prevalence of irrational thinking undermines the understanding of the cause-effect relationships that underlie production processes.

Alternatively, one can view consumers of gambling services as rational economic actors, who are typically purchasing a commodity that offers entertainment and excitement, as well as some hope of acquiring a higher level of income and wealth, in spite of the games' negative expected monetary value. Within the context of the modern casino, one can argue that the customer is purchasing a package of entertainment amenities centered on casino gaming activities. Indeed, in competitive destination resort casino markets—such as Las Vegas, Atlantic City, and Mississippi—casinos use loss leader or cross-subsidizing pricing strategies in restaurant, accommodation, parking, and entertainment offerings with the intent of inducing such customers to gamble in their facilities. A variant of this approach is complementaries or "comps"—goods and services provided for free to customers who meet certain minimum betting requirements (Gilmore, 1998).

A variety of examples of price discounting of casino games have been introduced into specific niche markets in recent years. For example, the global top-end baccarat market has been as large as \$2 billion in recent years, though the Asian financial crisis that began in 1997 brought about a rapid contraction for the period immediately following. A small number of players—probably fewer than 1,000—make up the bulk of the premium baccarat market (Curtis, 1997). To attract such customers, a half-dozen Las Vegas casinos, competing against a handful of top-end casinos located in London, Australia and Macao, have built elegant suites and villas for millions of dollars per unit to accommodate such players, along with offering a full array of travel amenities, services and cuisine. However, casinos compete most significantly over internal policies like maximum limits that such top-end players are permitted to wager, credit facilities, advanced deposit requirements, and the handling of cash. Moreover, casinos often provide discounts to these customers by offering rebates on losses and commissions paid on handle (Eadington and Kent-Lemon, 1992).

At a less glitzy level, discounting also takes place in casinos with slot "clubs" that are linked to player tracking systems. Players accumulate points as a function of handle that they generate at a particular casino, or among all the casinos owned by a specific company. The points are redeemable for prizes; for complementary meals, rooms or entertainment; or for cash. The obvious purpose of slot clubs is to develop stronger customer loyalty. But slot clubs also provide the casino with information on players, including frequency and length of play, handle, and

amounts won or lost. In turn, this information can be combined with personal data for a variety of marketing purposes, such as evaluating a player's value to the casino, determining levels of comps, making direct mail marketing appeals, and inviting valuable customers to tournaments and other special events.

There is evidence that players are price sensitive to the house advantage offered at various games, even though such information is often not readily available to them. With slot machines, house advantage can only be learned by experience or by word of mouth. Regular and local players play more frequently than tourists, and probably share their experiences more than tourists, and as a result are more price sensitive. Thus, the house advantage tends to be lower for slot machines for casinos that cater to local players than for those that cater to tourists; for example, in 1998, the house advantage for gaming devices on the Las Vegas Strip, which caters to out-of-state tourists, was 5.92 percent, whereas for the Boulder Strip a few miles south, which markets itself primarily to local residents, was 4.26 percent (State Gaming Control Board, 1998). Of course, locals are more single-minded consumers of gaming services and therefore locals' casinos compete more on price of all offerings, including gaming and food. Tourist-oriented casinos compete more on quality and product differentiation.

Another example of price sensitivity can be seen with roulette. Both American and European roulette pay 35 to one on single number wagers. American roulette, with the numbers 1 to 36, a zero and a double zero, has 38 equally likely outcomes, whereas European roulette, with only a single zero, has 37 outcomes. As a result, American roulette is approximately twice as expensive to play as European roulette.⁹ Because of this, roulette is a fairly minor table game in the United States; in Nevada it generated only 8.3 percent of the table game win in 1998. However, in other countries, roulette is often the dominant revenue generator among table games. In the United Kingdom, for example, roulette generated 61.4 percent of the "drop" (purchase of chips) and a similar percentage of the table game winnings in 1997 (Gaming Board for Great Britain, 1998).

The extent of market competition among casinos also puts downward pressure on prices of casino games. Nevada is undoubtedly the most competitive casino market in the world, and as a result, the house advantage that prevails in its games tends to be lower than in less competitive markets. For example, in 1997, the house advantage for all gaming devices in Nevada was 5.11 percent, whereas in Atlantic City, with only a dozen competing casinos and no slot machines permitted outside casinos, the house advantage for all gaming devices was 8.4 percent (Donaldson, Lufkin & Jenrette, 1999).

⁹ The house advantage for most wagers at American roulette is $(2/38)$ or 5.26 percent, whereas European roulette has a house advantage of $(1/37)$ or 2.70 percent.

Market Structures and Ownership Regimes

A wide variety of approaches have been undertaken to promote the public interest and to mitigate perceived social impacts from gambling.

The best place to look for an example of highly competitive casino markets is the state of Nevada. Nevada possesses a respected regulatory structure that oversees the most laissez faire casino industry in the world. Providing commercial gambling services in Nevada requires a license from the State Gaming Control Board (Cabot, 1995). The fundamental requirements for licensing in Nevada are meeting probity standards and access to legitimate financial capital. An unrestricted gaming license permits the licensee to operate any number of gaming devices and table games, though local ordinances can constrain location and size, and require certain amenities. Altogether, there were over 400 unrestricted gaming licenses in Nevada in 1998, of which about 230 generated annual gaming revenues of \$1 million or more. However, economies of scale and scope in Nevada's casino industry have led to a high concentration of revenues, and an even higher concentration of profit, in the hands of the largest gaming companies and operations.

Other states have attempted to limit gambling to particular cities or particular types of operations. New Jersey, for example, mandated a wide variety of size, design and product mix conditions that effectively limited the industry only to large gaming operations in a single city. At the time the enabling legislation was enacted, there was concern in New Jersey that a Nevada-style approach, allowing small and medium-sized operators into the market, would make control difficult and would invite organized crime and other chicanery into the industry (Sternleib and Hughes, 1983).

The approach taken in the mining town casino communities of South Dakota and Colorado effectively limited casino gaming operations to specific districts in the towns and into qualifying—typically historic—structures. Furthermore, South Dakota limited licensees to no more than 30 games or devices each. As a result, the casinos in the four towns of these two states have involved a large number of small-to mid-sized operations, with limited product differentiation. The size and zoning constraints, along with limited maximum wagers, also prevent the kind of evolution of the industry that has characterized Nevada.

The riverboat states have generally chosen legislative models that limit supply below what the market could bear, and encourage regional monopolies or oligopolies. This created significant economic rents and, in some cases (like Louisiana) has led to allegations of corruption in the bidding processes for the allocation of limited gaming licenses (O'Brien, 1998, pp. 98–125).

Mississippi, on the other hand, followed the Nevada model. As a result, it has seen its casino industry evolve in a market-driven fashion that has allowed the industry to develop multidimensional destination resort centers—particularly in Biloxi and Tunica County—that offer a wider variety of non-gaming amenities, such as accommodation, food product, outdoor recreation, and entertainment, than is typical in other riverboat states.

The urban casinos that were authorized in New Orleans and Detroit were an

attempt to create exclusive franchises. The philosophy was that such casinos would concentrate positive economic impacts more than competitive alternatives; they would be easier to regulate and control; and it would be easier for state and local governments to extract economic rents for public purposes from such operations. However, New Orleans has had allegations of corruption and a bitterly contested bankruptcy, an experience which provides a cautionary example of what might happen if governments try to extract too much in the way of economic rents (Rittvo, 1997).

In other countries, outright government ownership of casino operations is often favored, as in Canada, Holland, Austria and the Philippines. With the exception of Ontario and Nova Scotia, these government monopolies are also operated by government organizations. As a result, they can be more influenced by political considerations and objectives besides profitability, and are subject to many of the same inefficiencies which apply to other government-run enterprises. In contrast, the Australian approach to permitted casinos adheres to a philosophy of allowing monopoly casinos in major cities, as well as in a few destination resort locations (Mossenson, 1991). However, all Australian states besides Western Australia also permit gaming devices to operate outside of casinos, which tend to absorb much of the demand for casino-style gaming and thus reduce the ability of the monopoly casinos to extract rents. The approach in these jurisdictions—when private operators are involved—is to use competitive bidding processes to award licenses. However, in Malaysia and Macao, governments granted exclusive monopoly casino franchises to private operators without going through an initiative or legislative process (Cabot, Thompson and Tottenham, 1994).

Constraints on Permitted Gambling and Effects on Profitability

From society's perspective, what sets gambling aside from many other commodities is its longstanding relegation as one of the "vices." Along with alcohol, tobacco, illicit drugs, and the commercial sex industry, gambling has historically been a morally questionable and controversial consumption activity (Eadington, 1998). Along with the other mentioned vices, it has been subject to a wide variety of controls, including restrictions on where gaming can take place; prohibitions against or limits on advertising and the granting of credit; maximum limits on wager size or amounts players are permitted to lose; restricted hours of operation; and curbs on the types of games or gaming devices that might be offered. The variation of restrictions can range from strict prohibition to relatively unconstrained permission.

However, when the provision of a vice is legally limited, demand does not vanish, and there will often be an opportunity to capture excess profits by meeting that demand. Such opportunity may have particular appeal for entrepreneurs or organizations willing to work outside the law and without the protection of contract. Thus, when a vice, such as gambling, is prohibited or sharply limited, it can

lead to underground economy dealings that have significant social costs and consequences of their own (Reuter, 1983).

Much of the casino gaming that was authorized in the United States in the 1990s placed considerable limitations upon the size, type, or number of casino facilities; the terms and conditions under which customers could gamble; and the locations where gambling was allowed to take place. The effect in various jurisdictions, especially in the short term, was to create situations where providers of gambling services—or other economic stakeholders—were able to capture significant amounts of economic rents. Table 3 presents a summary of constraints for the eleven states that had legislatively authorized casino gaming by 1999.

In some cases, the constraints were significant in preventing the market from reaching a competitive equilibrium. For example, in Illinois, the combination of restrictions to no more than ten riverboat gaming licenses and 1,250 “gaming stations” per license resulted in a considerable undersupply of casino gaming product, especially in the Chicago metropolitan area during the first few years of riverboat casino operations. (A gaming station is a place—a slot machine or a seat at a gaming table—where a customer could gamble.) The economic rents captured by the state’s riverboat casino operators, especially those operating near Chicago, eventually led the legislature to increase the maximum percentage tax on casino winnings from 20 percent to 35 percent in 1997.

Such constraints can create disadvantageous competitive conditions in comparison to other regional gaming alternatives. For example, Iowa passed restrictive legislation allowing riverboat gaming in 1989, but legislation later passed over the next two years in Illinois and Mississippi was less confining. Soon thereafter, three of the five original Iowa boats left the state for more accommodating new gaming markets in Mississippi. In 1994, new Iowa legislation removed a mandated cruising requirement, as well as limits on wager size and overall losses. As a result, in local markets that bridged the two states, market share going to Iowa’s boats jumped from about 30 percent to 70 percent overnight (Nichols, 1998). The pressure then shifted to Illinois to relax its restrictions. This pattern of states leapfrogging each other to reduce their original restrictions on gambling is a common one.

One of the more interesting dimensions of casino gaming legislation is whether there is any linkage between statutory or regulatory constraints and the actual mitigation of perceived or real social impacts. In retrospect, many of the constraints imposed in new jurisdictions have turned out to be more symbolic than real in providing protections against adverse social effects that might be associated with permitted casino gaming.

Rules that mandate that riverboat casinos make actual cruises are a case in point. Supposedly the primary purpose for mandated cruising for riverboat casinos is to provide protections for customers against their own potential excesses by limiting what they can lose on a particular excursion, and to protect communities against the adverse “neighborhood effects” that land-based casinos might bring about. However, there is no evidence that suggests customers will get themselves into more or less difficulty with their gambling with mandated cruising than without, and there is no evidence that suggests mandated cruising alters neighbor-

Table 3
Regulatory Constraints and Legislatively Authorized Casinos, 1998

State (Date of Enabling Legislation)	# of Casinos (Maximum Allowed) ^a	1998 Gaming Revenues, (\$million)	Location	Credit Allowed?	Wager Limits	Loss Limits
Nevada (1931)	230	\$8,065	local zoning	yes	none imposed	none
New Jersey (1976)	13	\$4,045	Atlantic City only	yes	none imposed	none
Iowa ^b (1989)	3	N/A	navigable rivers	no	\$5 maximum	\$200 per excursion
Iowa ^{b,c} (1994)	12	\$496	navigable rivers	no	none imposed	none
Illinois ^b (1990)	10 (10)	\$1,107	navigable rivers	yes	none imposed	none
Mississippi ^b (1990)	29	\$2,177	designated waterways	yes	none imposed	none
Louisiana ^b (1991)	14 (15)	\$1,323	designated waterways	yes	none imposed	none
Louisiana ^d (1992)	0 (1)	\$0	site of Convention Center	yes	none imposed	none
Colorado (1990)	51	\$479	3 designated mining towns	no	\$5 maximum	none
South Dakota (1988)	53	\$44	Deadwood only	no	\$5 maximum	none
Missouri ^b (1992)	12	\$853	designated waterways	no	none imposed	\$500 per excursion
Indiana ^b (1993)	11 (11)	\$1,339	designated waterways	yes	none imposed	none
Michigan ^d (1996)	0 (3)	\$0	Detroit only	yes	none imposed	none

^a As of 1998.

^b Riverboat casinos.

^c Iowa relaxed restrictions on its riverboats in 1994.

^d Specified downtown location.

N/A not applicable.

hood crime in comparison to land-based casinos. However, the Iowa/Illinois experience demonstrates that customer preference is against mandated cruising. Companies involved in operating riverboat casinos have little interest in cruising their boats; by doing so, they increase their costs of operation and the risks of maritime accidents while undermining their customers' preferences. Local governments must provide adequate safety and rescue resources for cruising riverboats in case of accident. Furthermore, cruising adds to problems of land-based traffic congestion and queuing as customers must adhere to the fixed cruising schedules while getting on and off the boats. The only obvious beneficiaries of mandated cruising are those economically linked to maritime operations.

At best, riverboat casino legislation is a means of imposing restrictive zoning on

casinos in political jurisdictions and otherwise limiting the popularity and extent of gaming's presence. However, the rules on mandatory cruising have to be considered either economically inefficient or just plain eccentric; one could describe it as regulation by inconvenience. As might be expected, in those states with mandated cruising requirements for riverboat casinos, there has been ongoing political pressure to remove the requirement and thus "rationalize" the riverboat casino industry.

The purported intent of establishing constraints on casino operations is to mitigate some of the social impacts that might be associated with less restrictive gaming, or else to concentrate the positive economic impacts from casino legalization on investment, job creation, and development into certain geographic areas. However, unintended side effects of such constraints include reductions in overall demand for casino gaming from potential customers because of the inconveniences involved; increased economic rents accruing to operators or to the government in the form of excise taxes when artificial barriers to entry limit supply; and dampened incentives for the casino industry to develop more fully non-gaming complementary amenities—such as hotels and entertainment venues—because of lower expected return on investment. Some restrictions, such as prohibitions against a casino granting credit, or forbidding the use of bank debit cards in gaming devices or at gaming tables, undoubtedly lessen the amount of "impulse spending" by some casino customers. However, the impact of such rules on social costs are difficult to measure, as is discussed in the next section.

Cost-Benefit Analysis and the Rationales for Legalizing Casinos

The potential gains from allowing casino gambling can be usefully grouped into three areas. First, many of those who gamble do so in moderation and receive enjoyment from the overall entertainment experience, and their gain in utility should be counted as a benefit. However, in society's overall cost-benefit calculation, the consumer surplus portion of benefits derived from consumption of gambling services tends to be discounted; the extent of discount is related to the strength of moral criticism that gambling receives in the society considering it.

The public policy arguments in favor of legalized casino gambling have paid little attention to the wants and whims of potential customers of such gaming activities. Rather, legalization of casino gaming has been viewed more as a means to achieve ends of "higher purpose." The higher purpose can be fulfilled by capturing and directing the economic rents that arise when the state legalizes a previously prohibited but popular activity. A second area of gains from casino gambling are the promises of ancillary economic benefits from having a casino, such as job creation, investment stimulation, tourism development, economic development or redevelopment, urban or waterfront revitalization, or the improvement of the economic status of deserving or underprivileged groups (Economic Development Review, 1995).

Historically, casinos have often been introduced to capture economic benefits

from “exporting” casino gaming to customers from regions where the activity is prohibited. Jurisdictions that legalized casinos were often resource poor, or under economic duress. One or both of these factors apply to Monaco (1863), Nevada (1931), Macao (in the early 20th century), the Caribbean (1960s), and Atlantic City (1976), and help explain why many of the newly authorized American jurisdictions were keen on having casinos. East St. Louis, Illinois, Gary, Indiana, Tunica County, Mississippi, Shreveport, Louisiana, New Orleans, and Detroit have experienced varying degrees of economic distress in recent years. It was believed that casinos—as long as they could bring about injections of spending from outside the area—would create jobs, stimulate local investment, and enhance local government revenues.

Various studies have documented the economic gains and growth stimulated by communities and regions from their newly introduced casino industries (Arthur Anderson, 1997; Walker and Jackson, 1998). However, the methodology to distinguish fully between absolute measures of economic impacts and incremental impacts—in comparison to what would have taken place in the absence of casino authorization—is still in need of considerable refinement.

A third benefit from the legalization of casino gambling is as an additional source of revenue to the public sector. Maximum tax rates on gross gaming revenues in American casinos range from 6.25 percent (Nevada) to 35 percent (Illinois). Taxes on casinos are not an important source of public sector revenues for most states in the United States; only Nevada is heavily dependent on casino gaming tax receipts. Nonetheless, non-Indian casinos paid over \$2 billion in taxes to the various states on gaming revenues in 1997, and Connecticut’s two Indian casinos paid \$236 million to the state that year. In comparison, states generated revenues of approximately \$10 billion from net proceeds of lotteries (after expenses and payment of prizes) in 1997.

This “second class” status of gambling as a commodity—and of gamblers as customers whose demands are not fully respected in the public policy formulation process—has created a volatile political environment for permitted gambling. In effect, a good portion of the desirability of gambling as a commercial activity is dependent upon its ability to fulfill ancillary economic objectives. Casino gambling is valued for what it can do rather than for what it is.

On the other side of the cost-benefit calculation, at least some of the opposition to gambling is a straightforward moral disapproval, which I will not discuss further here. In addition, the public opposition to the spread of casino-style gambling has been driven mainly by fears of adverse social impacts. Some examples include: pathological or excessive gambling and related consequences; neighborhood crime issues linked to casinos, such as burglaries, robberies, prostitution, loan sharking, and drug dealing; political corruption and other compromises of law enforcement or judicial processes; and infiltration of gambling operations by criminals, organized or otherwise. Many of these issues have not yet been adequately researched, so their actual linkages to casino gaming are not well-understood (Margolis, 1997).

The most important of the social impacts are related to the phenomenon of “problem” or “disordered” gambling. Our understanding of the social costs of

problem gambling is limited because, until quite recently, little public policy research was conducted on the topic—and even the work done was of varying quality and was difficult to compare (Schaffer, Hall and Vander Bilt, 1997) or suffered from weak methodology (Thompson, Gazel and Rickman, 1997). The key question is not whether problem gambling is harmful—more or less by definition, it surely is. Problem gambling can and does result in significant personal disruptions and even tragedy. The hard issues are the extent to which problem gambling is increased by legalization of casinos, and the difficulties of separating personal costs and social costs.

Studies have recently attempted to identify the extent of social costs linked to changes in the legal status of gambling and place it into a benefit/cost setting. For example, a National Opinion Research Center (1999) study, prepared for the National Gambling Impact Study Commission, estimated that about 2 percent of U.S. adults have had moderate to severe problems with gambling in their lifetimes, and about 1 percent have experienced such problems in the past year. They estimated costs to individuals or society from such effects as poor physical and mental health, job loss and unemployment, at between \$1,000 and \$2,000 per year, with additional “lifetime” costs from divorce, bankruptcy or arrests of \$5,000 to \$6,000 per affected individual. Applying these estimates to 200 million American adults, a crude measure of costs per annum of problem gambling might be about \$3.5 billion, of which \$3 billion is in the category of annual cost (1 percent of 200 million adults multiplied by annual costs of \$1500), and about \$0.5 billion is in amortized lifetime costs (2 percent of 200 million adults multiplied by lifetime costs of \$5500, spread over a 50-year average adult lifetime).

However, studies in this area are fraught with conceptual difficulties and are supported by only limited empirical evidence (Walker and Barnett, forthcoming). Many of the costs identified are internal to the individual or the household, as opposed to external—borne by society—and are therefore difficult to place into a cost/benefit framework. Furthermore, if one were interested in estimating the opportunity costs of legalized gambling, the appropriate basis for comparison would include costs that accrue under a reasonable alternative legal status; that is, if gambling were either totally prohibited or permitted without any constraints, each state of nature would have its own non-zero costs of problem gambling associated with it. Thus, the existing estimates are of limited usefulness and require further interpretation.

If a local community carries out an informal benefit/cost framework as its justification for legalizing casino-style gaming, certain types of gaming are going to be inherently more acceptable than others. Jurisdictions that are able to become net exporters of gambling services—by attracting a high proportion of their customers from outside the region—will be able to generate considerably greater incremental local economic benefits than those jurisdictions whose casinos cater predominantly to local clientele (Eadington, 1998). In similar fashion, casino markets that cater primarily to tourists or other nonresidents will experience less visible negative social and political impact than those whose customers are their neighbors. Thus, destination resort casinos, such as those found in Nevada, Atlantic

City, or Mississippi, will meet with stronger political acceptance than urban or suburban casinos, such as those found in Missouri or upstate Illinois and Indiana. In a similar vein, casino-style gambling permitted outside of casinos—such as with slot machines, video poker machines, or video lottery terminals placed in bars and taverns or other age restricted locations—will score lower on the benefit/cost computations, and will therefore meet with greater political opposition prior to implementation, or greater political backlash if they become established.

The Future of Commercial Gaming

For the past three decades, the driving force behind the growth of casino gaming in the United States and in many other countries has been that state and national governments have relaxed their earlier rules limiting casino gambling. However, in the immediate and intermediate future, advances in gambling technologies may create a new set of public policy questions.

Slot machines—now electronic gaming devices—are likely to continue to be the gaming products of choice in jurisdictions that permit them. But the traditional slot machine—insert a coin, pull a handle—will likely become as obsolete as the Model A Ford. The guts of the modern gaming device are already dominated by computer chips, high resolution graphics programming, and random number generators, rather than the flywheels and tension springs of the old slot machines. Games within games, mega-payouts, branding with popular television games and pop culture logos, a wide variety of bonus pays and other player incentives, and allusions to skill and fantasy, are already supplanting the impersonal and monotonous spinning reels based on pure chance. The new machines are increasingly fueled by bill acceptors or credit card swipes, and operated with button pushes or touch screens. As in other areas of modern life, it is likely that in the gambling industry we are only seeing the beginning of an ongoing wave of innovative changes driven by new computer-based technologies.

The level of policy tension surrounding such gambling activity is likely to increase. Competition among manufacturers is pushing the cutting edge of what makes such devices successful, entertaining and popular: the excitement or “adrenaline” factor inherent in the games. The combination of immediate electronic access to funds, and the impulsiveness that fast action gambling can encourage, may lead to a greater degree of excessive spending on gambling by many consumers. Overall, gaming devices have indeed become more productive in recent years—measured in win per unit per day—by increasing the rate of play, the ease with which one can enter money into the machine, and the psychological appeals to players seeking what machines can offer them.

Such enticing gaming devices might be judged acceptable in destination resort casinos such as those found in Las Vegas, Atlantic City, or Biloxi. However, these machines also can be easily located in local retail or entertainment outlets. In fact, Internet gambling and variations of interactive television gambling are already technically possible and—in varying degrees and locales—available. Thus, the technological

ability has arrived to deliver the most popular, the most exciting, and perhaps the most addictive forms of gambling into one's living room, bedroom or office.

There is an evolutionary trend for permitted gaming that parallels what has occurred over the decades with the movie industry. The 20th century has seen the distribution of commercial movies to the general public evolve from center city theaters of considerable stature and architectural quality, to suburban shopping malls in the form of multi-screen complexes, and into the home in the form of videotapes, pay-per-view and cable channels. The future promises on-demand downloading of digitalized movies into computerized home entertainment centers.

The evolution of casino-style gaming has been following a similar path. The present trends suggest casino-style gaming is moving or will be moving from site-specific destination resort mega-casinos serving broad markets, like Las Vegas and Atlantic City, to urban and suburban casinos and entertainment centers that are smaller and more differentiated and that serve a more localized market, and then on to various gaming opportunities in the home or the neighborhood.¹⁰ As permitted gambling gets closer to where people live, criticism of its negative effects are likely to increase. After all, most societies have prohibited most forms of gambling for almost all of history. When casino gaming has been permitted in the 19th and 20th centuries, it was either located away from where most people lived, or was restrictive with respect to who could gamble. These conditions have changed, and as a result, we will probably see ongoing political tensions regarding gambling and public policy.

The current controversy over Internet gambling poses an interesting illustration of the varying tensions that new technologies, latent demand, concern over social impacts, and protection of existing established markets bring into play. Without legal status and credible regulation, customers of Internet gambling would run the risk of getting involved with gambling schemes that might be rigged, and would have no assurance that winnings would be paid. Furthermore, there are few controls to prevent minors, or other vulnerable groups, from participating. In the United States, legislation to ban Internet gambling was entertained by Congress in 1999, with the support of the casino industry and various other gaming interests. The broad strategy was to keep Internet gambling on the fringes of commercial gaming by creating criminal or civil penalties for suppliers and Internet providers. This would also keep mainstream corporations—who would have the resources and credibility to provide consumer protections—from becoming purveyors of Internet gambling services (Cabot, 1998). In contrast, various countries, including Australia and New Zealand, have moved forward with enabling legislation to authorize, regulate and tax Internet gambling operations, opening the door to legitimizing a new sector of the gaming industry. In the light of the difficulties of constraining Internet commerce at the borders of political jurisdictions, Internet gambling promises to provide ongoing controversy and challenges.

An additional complication will come into play if, as gaming becomes increasingly

¹⁰ There is a tendency for existing gaming industries to oppose further expansion of casino-style gaming because of potential erosion of profitability. Thus, Atlantic City interests have opposed casinos in Pennsylvania, and Nevada casinos have opposed the spread of Indian gaming in California.

available and therefore more subject to competitive economic pressures, economic rents diminish. If, at the same time that the rents from such activity are diminishing, permitted gambling is increasingly successful at drawing business away from other more "legitimate" activities, such as restaurants, bars and taverns, or movie theaters, such industries may act as leaders in efforts to roll back the availability of gambling.

American society is ambivalent about the desirability of permitted gambling, and is struggling to find a comfortable balance. If new technologies push gambling to unacceptable levels by making it too available, too exciting, and too dangerous, public acceptance of gambling could reverse itself. It is not inconceivable that permitted gambling could be made less available should the body politic decide that what is gained from gambling—including the pleasures of the activity itself—cannot justify the social disruptions and economic dislocations it brings about (Rose, 1991). But in the light of current trends or attitudes, this possibility is not yet an even money bet.

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**Selecting an Operator in a Limited Gam-
ing Jurisdiction: Steps Toward Evaluat-
ing
and Understanding Operators'
Financial Projections**
John R. Mills

Many new gaming jurisdictions
are limiting the number of casinos that can operate within a given geo-
graphic location. This has led to a selection process whereby a request
for proposal (RFP) is issued by a governmental agency for building and
operating a gaming establishment. Submitted bids must then be evalu-
ated in terms of the viability of the proposal as well as the benefits that
will accrue to the governmental entities and the operators.

The evaluation process can be very complex. It can include analysis of
feasibility studies, fiscal impact studies, architectural designs, physical
layout designs, corporate citizenship, viability of the operators, and fi-
nancial projections. While there are many factors which are involved in
this evaluation process, a large number of evaluation teams place heavy
emphasis on the analysis of financial projections and the viability of the
bidding entity.

In this article, the author discusses the problems that can arise when
comparing financial information supplied by different bidders. The au-
thor provides a basic foundation to be used for the evaluation process
and ends with suggestions that should be included in the RFP which will
make the evaluation process more efficient. An appraisal of the entire
evaluation process is beyond the scope of this paper. This paper limits
its scope to that of evaluating the viability of the bidding entity and the
analysis of financial projections.

A COMMON CONSENSUS ON FINANCIAL INFORMATION

A survey of recent RFPs finds a common ground of financial informa-
tion that is used in the evaluation process. TABLE 1 identifies the enti-
ties that issued the RFPs. TABLE 2 identifies the evaluation criteria used
by these entities to select a successful bidder. TABLE 3 provides the fi-
nancial information requested to substantiate the evaluation criteria.

There appears to be three common elements that run across all the RFPs. The first criteria is the desire to have an operator who is currently in the gaming industry and who is currently successful. The next criteria is that the operator have the capacity to put together a financing package to build and operate a casino in the RFPs' jurisdiction. The final criteria is the ability to

make financial projections which represent reasonable and realistic future earnings and provide the taxing entity a means for determining future cash flows to the city, county, etc.

Given the three criteria and the financial information requested, how is the financial information used to arrive at a successful bidder? Let's identify the information that will be accumulated by the RFP and discuss how this information can be used. The objective is the selection of the most viable bidder/operator. Therefore, the information must be accumulated in a format that is comparable across the bidders. A large portion of the evaluation process is used in setting up the information in such a way as to be consistent across the bidders.

THE ANNUAL REPORT AND/OR 10-K

TABLE 2 indicates that the RFPs require anywhere from one to four years of a company's annual report and or 10-K, the Security and Exchange Commission's equivalent to an Annual Report. The annual report consists of the Income Statement, Balance Sheet, and the Cash Flow Statement. Additionally, these reports include a section entitled Management Analysis and Discussion, as well as a five or more year summary of relevant financial information.

Annual report information should be used to evaluate the company's past performance as an indicator of future performance. This is most readily done by using percentage and ratio analysis. Major areas that are evaluated relate to liquidity, profitability and coverage. Additional information on commitments and contingencies are also disclosed.

Using the company's five year summary of prior periods can provide a relatively painless means of creating the necessary ratios and developing a picture of possible company trends. While the information is in a condensed form, this information should be enough to make decisions on whether the company is a strong candidate for the proposed project.

TABLE 1

CITIES SUBMITTING REQUESTS FOR PROPOSALS
Davenport, Iowa
Kansas City, Missouri
Shreveport, Louisiana
St. Joseph, Missouri
Sydney, Australia
Windsor, Ontario

TABLE 2

FINANCIAL EVALUATION	# REQUESTED
1. Experience in Gaming Operations	6
2. Financial Capability	6
3. Operating Projections & Assumptions	6
4. Operator Financial Investment	1
5. Litigation Disclosure	2
6. Licensed in New Jersey or Nevada	1
7. Define Lease Income to Authority	3
8. Contributions in Aid to City	2
9. Length of Commitment	1

Another means to a better understanding of the company with little analysis is the Management Analysis and Discussion section of the report. The section covers three financial aspects of an enterprise's business-liquidity, capital resources, and results of operations. It requires management to highlight favorable as well as unfavorable trends and to identify significant events and uncertainties that affect these three factors.

TABLE 3

FINANCIAL DATA REQUIRED	TERMS
1. Annual Report and 10K	1 to 4 yrs
2. If new Corporation, Pro-Forma B/S	2 Cities Req
3. Sources for Funding Project	All Req
4. Monthly financial Projections	3 Cities Req
5. Yearly Financial Projections	5 Cities Req 5 yrs
6. Proposed Lease Structure	2 Req
7. Costs of other or Proposed Projects	1 Req
8. Current financials for Each Gaming Property	1 Req
9. Assumptions for Financial Projections	1 Req

PERCENTAGE AND RATIO ANALYSIS

The diverse sizes of companies submitting bids can cause confusion in the comparison process. For example, one RFP resulted in submitted bids from companies whose asset size ranged from \$10 million up to a

company with assets of over \$50 billion. While the relative size of companies does not play a role in defining the capability of operating a casino, it does play a role in the company's ability to generate financial backing for a new project. Thus while the \$10 million company might be seriously considered for a \$10-20 million project, the probability of being seriously considered for a \$300 million project is slim.

Comparison of serious contenders are more readily achieved by analyzing them in terms of percentage analysis and ratio analysis. For example, determining the effectiveness and efficiency of the company operations can be achieved by converting the income statement into percentages, most commonly based on sales. This provides standard relationships across companies on the basis of components of revenues and expenses such as departmental expenses for hotel, casino and restaurants. It is important to note that any comparisons should be made based on industry averages, not just the companies that have submitted RFPs. Given five years of data, trends can be evaluated, such as whether costs are increasing as a percentage of total revenues. Of course, profitability ratios can also be derived from the original data and used to measure the degree of success of a company's operations.

Alternatively, ratio analysis is used to evaluate the liquidity and financial flexibility of a company. The current ratio is most often used to test the capability of a company's short run ability to pay its maturing obligations. Debt to equity ratios are used for evaluating the company's financial flexibility and capability to take on more debt for new projects.

As previously noted, most companies provide five year summary of past years. Many also provide such basic ratios such as return on investment, profit margins, and five year annual growth rates in terms of assets and revenues. These five year summaries provide the basic information for computing ratios or return and can go a long way in developing trends.

COMMITMENTS AND CONTINGENCIES

The financials provide information concerning past transactions. Many of these past transactions result in future potential and real liabilities. The commitments and contingencies section of the annual report discloses events that result in material future cash outflows as well as possible future cash outflows resulting from lawsuits against the business. Examples of possible future cash outflows are such items as operating leases and guarantees for subsidiaries of other parties. The disclosure of the undertaking of new projects or potential future projects that can have significant impact on future cash flows are also usually disclosed in this section.

FINANCING PACKAGE FOR NEW PROPERTY

The second criteria in the evaluation of proposals is the cost of the new proposal and where the funding will come from to finance the project. Needless to say, use of information developed from the annual reports also plays a role in this process. A company's financial flexibility in terms of its capitalization structure must be considered when looking at the total cost of the project and the possible financing of the project.

Part of the analysis of the costs associated with the new project should be the separation of these costs into three components; 1) Pre-opening costs and bankroll, 2) Property and plant, and 3) Furniture, fixtures and equipment. Such a breakdown provides an indication of the type and amount of debt financing necessary. For example, if financing were to be put together for the Casino Orleans project, a classification into the three categories would result in the following:

(1) PRE-OPENING COSTS AND PAYROLL	
City Payment	100,000,000
Mass Transit Improvement	20,000,000
Contingencies and Reserves	141,958,487
Training	2,500,000
Pre-Opening Costs	30,490,000
Finance Cost	9,944,440
Total	304,892,927
(2) PROPERTY AND EQUIPMENT	
Building Construction Costs	56,647,073
River Cruise Terminal	7,000,000
Park-Garden	28,500,000
Interest Carry	20,000,000
Parking	19,974,000
Total	131,121,073
(3) FURNITURE	
Fixtures & Equipment	38,610,000
Total Project Costs	474,624,000

Such a breakdown would mean that of the total project costs of close to \$475 million, there is only approximately \$140 million that has any assets to use as collateral; the \$131 million for property and equipment could be financed with asset backed mortgage debt, while the other \$39

million for furniture and fixtures could be financed through leasing arrangements. The payment to the city of \$100 million and the mass transit improvement represent capitalized costs that have no future value. These and the other pre-opening costs would almost require some form of equity financing or very high yield junk bonds, assuming that positive future cash flows can substantiate future payment.

In addition, it is necessary to look at the cost of other projects currently underway, as well as other potential projects under bid. Once these new projects are thrown into the financial structure, what impact does that play with the financial flexibility of the company. With the enormous growth in new gaming jurisdictions, its quite possible that the potential developer and/or operator has extended itself both in terms of financial resources as well as management resources. When looking at new projects or potential future projects, relevant information should include the cost of the new project, and if a joint venture, the percentage of ownership and funding required.

FINANCIAL PROJECTIONS

Financial projections represent the building of future income and balance sheet financial information based on careful analysis of economic data and the anticipated cost of the proposed casino. The evaluation process must review the projected income statement and determine whether the assumptions used for revenue and expenses represent logical and reasonable foundations. Effective evaluation can only be achieved if the evaluation team has some predetermined model that can be used for comparative purposes. Such information should consist of an economic impact study which provides gaming visit days and estimated revenue per gaming visit day. Additional information must include an expense projection model based on the type of property to be developed.

BASIS FOR REVENUE PROJECTIONS

An economic impact study, from a reputable independent source, should represent the first step in the evaluation of any financial projections. The study on the new gaming jurisdiction would present the basic assumptions that are used to generate the revenue projection data. This information includes the gaming visitors as a percent of total visitors to the area resulting from the new gaming activity. It also includes estimates of the average revenue per visitor day.

Additional data that should be used by the selection committee includes revenues per visitor or revenue per gaming device based on the latest gaming statistics available. If possible, the gaming statistics should represent a location which is equivalent to the new proposed casino. The selection committee takes this information, factors in the proposed client base that each company expects to market to, and makes a decision as to

the reasonableness of the proposed revenue projections by each of the bidders.

BASIS FOR EXPENSE PROJECTIONS

The evaluation of the expense projections must also be based on some predetermined model of expenditures adjusted by factors such as the cost of the new casino project, financing of the project, and tax and incentive payments made to the governmental agencies. The actual evaluation of expense items is predicated on the type of payments or participation of earnings that the governmental entity is going to have.

These payments can be a flat fee, a percentage of gross revenues, or possibly a percentage of net earnings. Flat fees or a percentage of gross revenues places no emphasis on other types of expenditures. Therefore, the evaluation process would emphasize profit margins and their reasonableness. On the other hand, if there is some form of participation based on profits, then a full analysis must be made of the various types of expenditures and what type of expenditures are included when arriving at the profit figures. For example, both New Orleans and Windsor will receive a percentage of the operator's net profit.

A second reason for looking at specific departmental expenses is to determine whether they are reasonable in terms of the type of property and customer that the property is catering to. For example, when designing property for the high end market, there should be higher compliments as a percentage of total costs. Hotel expenditures for staffing should also be higher.

PROBLEM AREAS IN ANALYZING COMPANY FINANCIAL

Given the financial information requested, what type of problems are there in analyzing this information? Unfortunately, there can be a multitude of them, especially if the governmental entities that issue the RFPs fail to provide some basic guidelines for the presentation of the information. The same is true if there are not specific guidelines for the size and type of casino that the entity is looking for.

DIVERSITY OF PROPOSALS

Many of the new gaming jurisdictions went on a fishing expedition when they put together their RFPs. While the agencies may already have a site in mind for the gaming property, the agencies did not give much thought to what type of development they wanted placed on the property and therefore did not provide precise information in their RFP.

For example, the New Orleans RFP stated that the casino would be developed on the 6.47 acre Rivergate Site in downtown New Orleans. This site already contained a convention center. The RFP suggested that a "respondent may wish to renovate the existing improvements. However,

it is envisioned that the selected Developer will remove the Exhibit Center and construct new facilities that would include a casino/gaming facility or a mixed use project.”

This resulted in a wide range of designs from the operators as well as a wide range of sizes. Half the proposals renovated the property while the other half demolished it and built a new structure. It is worth noting that Harrah’s won the bid from the state with a proposal that would have renovated the old building, yet, after further negotiations were complete, the final designs of the proposal are to demolish the property and put up a complete new structure. The latest information shows that the court has thrown out the Harrah bid because it does not conform to the bid accepted, and reopened the bidding process. Substantial time and effort would have been saved if this decision had been included in the initial RFP.

The City of New Orleans’ RFP was issued with no direction in terms of the type of property, casino size, total size or style that should be built. But, it did include a statement which said, “the City encourages proposers to provide monetary benefits or bonus bid items” to enhance the proposals. The result was four bids which in many ways were not directly comparable in terms of costs and financial projections. Casino square footage ranged from 120,000 to 250,000. The entertainment area ranged from 0 to 120,000 square feet. The restaurant space went from 0 to 55,000 square feet. The total property ranged from 300,000 to 450,000 square feet. Projected costs of the project ranged from \$210,000 to \$475,000 but were not comparable on total square footing basis because of different additional contributions of “enhancements” being made for non-casino projects.

Compare this to the approach taken by the Windsor Ontario Community. Substantial time and effort was taken to limit the parameters of the property to be bid on. The proposal specified that the casino complex would include:

- An equipped gaming area of a maximum of 75,000 square feet;
- An entertainment facility;
- Three restaurants (coffee shop, popularly priced and upscale).
- A hotel with a maximum of 300 rooms;
- Lounges and/or bars;
- A child care facility for children of employees;
- A gift shop, and
- Parking facilities, tour bus drop-off facilities and other related infrastructure.

PROBLEMS WITH ANNUAL REPORT INFORMATION

Analyses of company annual reports and 10-Ks show that many include some of the normally used ratios such as current ratios, free cash flow, return on investment, and debt to equity. Using the supplied information can help shorten the time needed for analyzing each company. But it is necessary to spend some time making sure that each company is using the same numbers to calculate each of its ratios. For example, while the debt to equity ratio is a commonly used ratio, the calculations of this ratio can differ substantially. Some companies use total debt whereas others only used long term debt. Some companies compare the debt to total equities; others only use stockholder equity. Many of the gaming companies use free cash flow as a measure of cash available for additional investments. Careful analysis again shows different approaches to arrive at this figure.

An additional problem is associated with submitted proposals that represent either newly formed corporations or joint ventures. A decision must be made on how much additional information must be accumulated about the parties involved in the newly formed corporations and the type of commitments and guarantees being offered. For example, the phase II New Orleans RFP resulted in four submitted bids. Three of the four bids were new companies, with the fourth being a joint venture. The joint venture consisted of Harrah's Casino Hotels and Mirage Resorts, Inc. While both firms individually are strong contenders for any bid, the real concern is the amount of commitment for the project. Because both firms are strong gaming properties, little doubt existed that the companies would walk away if the project turned sour. The real problem with joint ventures revolves around more non-financial aspects such as: the questions of who will have the authority to make decisions over operating activities and what type of property will be developed.

The same question was asked by the Ontario people before they gave the bid to a consortium of Circus Circus, Ceasars, and Hilton. Talk about a mix of management styles. Here is a mix with Circus Circus aiming for the low end market, Hilton the middle, upper end, and Ceasars at the upper end of the market. Again, each of these entities have the financial capability to provide the resources necessary for the proposed project. The real question was over the type of project that was to be developed.

The problem of the commitment that each part is willing to provide in terms of management and financial resources is crucial in the selection of any new project operator. A look at the other New Orleans bidders found a real mixed bag. Each of the three corporate bidders were set up to finance and build the project. A separate management agreement would then be farmed out with a casino operator (management team). None of the corporate bidders had any gaming experience. While each of the bidders had aligned itself with a gaming corporation as an opera-

tor and planned to use the gaming operator in the development stage, the gaming properties appeared to hold little financial risk in the project. For example, the Hemmeter/Robinowitz group proposed a property costing \$427 million. The proposed financial showed \$160 million coming from equity funding, \$25 million from bank financing for working capital and \$230 million from mortgage notes. Ceasars' interest in this project was limited to the contribution of \$10 million to be used for working capital once the operation was on line.

Hemmeter had developed major projects in the past and been able to raise the funds to do so through private financing. But doubts existed about his capability to obtain the funds for this undertaking. David Berkowitz, president of USA Capital Management Group in Las Vegas, which specializes in gaming companies, believed that Hemmeter did not have enough experience in gaming to put such a financing package together. He believed that Hemmeter might have to put up as much as \$200 million in equity before finding lenders willing to provide the other \$200 million.

The other bidders put together packages similar to the Hemmeter group. The New Orleans Louisiana Development Corporation consisted of ten stockholders with no gaming experience but a management contract with Showboat, Inc. The group contributed a total of \$5 million of the \$210 million needed. The rest would be generated by debt and equity financing. The Casino Orleans Consortium also did not have any gaming experience and had a management contract with Carnival Management Services. This group contributed \$8 million of the \$475 million project cost with the remaining coming from both debt and equity financing.

This raises several issues that need to be addressed.

1. The gaming operators numbers may appear to provide a good indication that they are capable of running a successful operation but do they really have the ability to run the casino effectively as a management team under control of owners with no gaming experience.
2. If an offer is made to groups with no gaming experience, will the debt and equity markets generate the funds necessary to get the project off the ground; especially in today's market!
3. With so little invested, where is the long term commitment? Especially with no track record.
4. Its interesting to note that Hemmeter had no problems dumping Ceasars when the chips were down.

PROBLEMS WITH EVALUATION OF FINANCING PACKAGE

The Major problem associated with the financing of the projects is the likelihood of the financing packages actually coming to fruition. All the bidders provided letters expressing some form of interest in financing the project by underwriters and bankers. The uncertainty of such financing can cause any selection committee to place a higher value on this companies having equity contributions and private or bank debt financing over those that must go to the debt and equity markets to raise their funds.

PROBLEMS WITH EVALUATION OF FINANCIAL PROJECT

The selection team must be able to make a comparison of the financial projections across the bidding companies in terms of departmental revenues and expenses. Projected cash flows to the company as well as cash flows to the governmental entities are also a major component in the decision process. The multitude of problems revolve around classifying the information into similar types of revenues and expenses across the companies as well as being able to evaluate the information in terms of present value of future cash flows.

LACK OF STANDARDIZED FORMAT AND ACCOUNT TITLES

The operating financial projections for a gaming property should consist of revenues and expenses broken down by departments. These departments usually consist of gaming, rooms, food, beverage and other. It also includes general and administrative expenses. Without providing a standardized format for operators to follow, it is near impossible to determine whether various general and administrative costs are all inclusive or have been allocated to the various departments. The provision of specific formats to follow would allow for easier comparisons across the different operators.

It is also wise to separate out of the expenses any costs associated with the proposed capital structures and operator fee arrangements. Comparison of various expenses can be substantially distorted by the inclusion of various financing or leasing arrangements.

DIFFERENCE IN TIME RANGES

While many of the RFPs call for cash flow projections and the present value of such projections, not including a relevant time range for the cash flow projections can distort any analysis. For example, the New Orleans bidders provided cash flow information which had time frames ranging from 10 to 60 years. Comparison of the discounted cash flows becomes worthless when dealing with companies with cash flows ranging from 10 to 60 years. Again, the Windsor project learned from prior

experience and requested that all data be provided which covered a 20 year time period.

INFLATION FACTORS

Different approaches for evaluating proposals include the Net Present Value method and the Internal Rate of Return method. The results can be distorted if companies have already included some type of compounding factor in the projected figures.

Most RFPs require the proponents to provide anywhere from 5 to 20 years of projected income statement for the proposed casino. While the very nature of future projections for any new development leaves wide ranges in resulting projected revenues and expenses, comparisons across projections can be further distorted by the inclusion of different inflation factors by the proponents. Thus where some companies did not include indexes in their analysis, others uses inflation factors ranging from 1 to 8%, whereas others still used different rates for revenues and expenses.

If no adjustments are made to each operators' cash flows for a common inflation factor, those operators who use no inflation factor or use low inflation factors, will show lower net income and cash flows and therefore lower taxes paid to the regulatory agencies. Since most jurisdictions are trying to maximize their tax revenues, these operators will appear to be giving the regulatory agencies less when in fact, its a function of the inflationary factors.

MANAGEMENT CONTRACT

Many of the non-U.S. companies are creating RFPs whereby at the end of a period of time, the property reverts to the governmental entity. Australia and Canada represent countries that have taken this approach. For example, the Windsor RFP required the submission of a bid for building the casino and operating it with the provision that at the end of 20 years, the property would be transferred to the City of Windsor.

The land based New Orleans casino has also been set up so that once the property is built, the ownership is transferred to the City of New Orleans. The City then leases the property back to an operator.

Without a specific indication of the type of management contract in the RFP, the selection committee will find a diverse selection of possible approaches. These can range from flat fees, to percentages of gross revenues, to percentages of net income. The impact of these different fee structures can only be evaluated by developing a model which provides ranges of revenues and net income with all factors held constant except for the different management fees.

Again, the analysis can be greatly simplified if a decision is made on the type of fee structures the governmental entity is willing to accept and that information is included in the RFP.

DEFINING OPERATING PROFITS

Many proposal from proponents call for the sharing of profits with governmental agencies. This is typically based on a percentage of profits. Closer analysis of what each proponent means by profits can result in drastic differences of funds going to the governmental agency.

A gaming property can conceivably use four different profit figures for defining the percentage that will go toward the governmental agency. These are defined as 1) profits from gaming operations, 2) profits from normal operations, 3) profits after other income and taxes, and 4) net profits.

Profits from gaming operations reflect earnings from the gaming casino departments after taking out the operating expenditures associated only with the running of the casino. Thus it would not include any restaurant, lounge or bar revenues or profits. The major concern with this figure is whether it is derived from direct expenses or whether administrative overhead has also been included. Normally this figure represents direct departmental expenses which do not include the application of overhead.

Profits from normal operations represents the revenues and expenditures associated with all operations of the facilities. It not only includes gaming revenue, but also hotel, food and beverages. It also includes corporate expenses such as depreciation and selling and administrative expenses.

Profits after other income and taxes represents income and expenditures which do not represent everyday type transactions. These include one time events such as restructuring charges or disposal of corporate properties. Examples would be the disposal of a specific chain of hotels without disposing of all the hotels in the corporation or the charges associated with the laying off of a thousand employees.

Net profits reflect earnings after taking into consideration all revenues and expenditures which includes the disposal of segments of businesses, extraordinary items and accounting charges.

OTHER ADJUSTMENTS TO EARNINGS

While the above definitions of net profit reflect the generally accepted accounting principles definition of net profits, submitted proposals provide many variations for purposes of calculating operating fees and various management bonuses or payments to governmental agencies.

The following represent a series of examples submitted bids of corporations offering proposed profits which would be used for the distribution

of additional management fees to the operator or as a basis for which an additional fees would be paid to the governmental agency.

- a) Operating income is defined as being before management
- b) Fees, interest expenses and income taxes.
- c) Annual pretax cash flow will be distributed between the state and the operator according to a prescribed schedule. Pre-tax cash flow is defined as being: Revenues less all operating expenses, all taxes excluding income taxes, a capital replacement reserve, and debt service (including interest and amortization).
- d) The operating fee consists of a base fee of 2% of total revenues and an incentive fee equal to 5% of net operating profit. Net operating profit excludes depreciation, rental expense, and management fees.
- e) The operator will be compensated with a base management fee of 5% of gross revenues and an incentive fee based on available cash flow ranging from 10% of the first \$10 million up to 30% on cash flow over \$40 million. Available cash flow is defined as income from operations less the base management fees, property and lease payments, and the provision for the property and equipment replacement reserve.

STEPS FOR A MORE EFFICIENT EVALUATION PROCESS

If governmental entities are going to use the RFP process for the selection of limited gaming properties, the entities must take more time determining the type and size of property that is desired. The basis for evaluation must also be determined before issuing the RFP. If the selection criteria can be identified along with the specific information to be used in that selection process, the RFP should therefore provide basic guidelines that can be followed.

STEPS TO CONSIDER WHEN DEVELOPING THE RFP

1. Obtain a market study on the specific desired location.

This study will provide you with valuable information on the total demand for casino gaming and provide an estimate of the total revenue that can be generated. This information can then be used to define the size of the casino. Since more than 60% of the customer typically come from a 50 mile radius (unless the location can be defined as a destination vacation area), governmental demographic information can be used to identify the market that the casino should be aimed for.

2. Be specific about the size and type of casino that can be expected.

The more information that can be identified in an RFP, the more likely that the submitted bids will be more readily comparable. This should include the size of the casino, the number and type of restaurants and bars to be included, and the possible size of any hotel.

3. For joint ventures and newly formed corporations, be sure to request information which identifies each party's financial and operational commitment to the project.

Financial information from corporations or investors who have formed new corporations which submit bids only provides information based on old relationships. The selection committee needs a better picture of who is to run the new company and where the funding will come from.

4. Identify the cost of new projects under way and other projects being considered. Include ownership relation.

The rapid expansion of gaming has found that many of the current gaming companies are involved in substantial new projects. It is anticipated that many of the new projects will fail. It is also likely that many of the new gaming companies will be overextended. The identification of the new projects and the ownership relation and future commitments associated with each new project has to play a large role in the selection process.

5. Identify the financial projection information required for the decision process and provide a specific format for disclosing this information. This format should include the following:

- a) Time period for evaluation process.
- b) Growth and inflation factors to be used.
- c) Departmental expenses to be broken out.
- d) Separate disclosure of all financing, ROIs and management fee arrangements.
- e) Discount rate used for present value cash flow.

Comparisons across companies means having the ability to identify specific costs and financing arrangements. Without a specific format, the selection committee will continuously need to redirect questions to the submitter. The committee will also find that different companies will combine different information together which makes comparison impossible at any level.

The Casino Bid Process: Some Questions Answered

John Williams

There are many types of casino start-up; normally most of the variables involved are caused by rules prescribed by Governments. It would be impossible to cover every permutation. This paper covers one type of base case and deals with some variations.

The basic assumptions are:

The proposed casino is in a country with no existing casino;

The government, or a government agency, has the power to issue and review the licence;

There is political stability and an agreement by political parties that a casino is desirable;

The casino has a monopoly countrywide or for a geographical area; and

There is a bidding process (this may not be the case, but all the work described here has to be done in any event).

CASINO START-UP

Who begins the process?

While the granting of a casino licence is the prerogative of governments their involvement in the licensee may be total (government casino monopoly) or, more usually, nil. Once an opportunity arises the government usually lays down the ground rules for the bidding process, if there is to be one.

The initiative to put together a bid can come from almost anyone, such as the government itself, an existing operator, a developer, a site owner, a non-casino gambling operator, a financier, a builder, a group of professionals, or a deal maker.

No matter who starts the action the process is the same.

What do you do first?

As in anything else, first you learn the rules.

There are three indispensable steps before starting out on any casino bid. Any time spent on these will not be wasted. Any time skimmed on these will be lost many times over later on.

1. Read the legislation. This doesn't mean just reading through the *Act* or Draft Act enabling the casino to be set up. It also requires looking at the process which led to that position; i.e., Government Inquiries that were held, political support or opposition, positions of pressure groups, newspaper articles and editorials—all those indicators which will help define the social and economic background to the casino decision.
2. Read the government's brief. If the government has issued a brief detailing the timetable and all the requirements of the bid process, then this must be fully understood. The brief will provide a very good idea of all the work that must be carried out in order to win the licence. It is at this early stage that you must find out whether all the brief requirements are possible to carry out, clear and totally unambiguous.
3. Discuss the requirements with the decision-making body. For the purposes of this paper this body is called the selection panel. This may be a panel set up within government, independent of government or even, in a notable Australian instance, a panel established by a panel appointed by government. The last was, of course, a process to distance the licensing decision as far as possible from government.

Whatever the composition of the panel, you need to get to know it very well and to become known to and trusted by its members.

Your meetings with the panel will:

- help you better understand the brief,
- enable you to enquire about possible variations, and
- help you sell yourself and your team.

What are the Crucial Issues?

Some of the crucial issues you will want to understand fully are mentioned below.

Bid format and content required: It would be a pity to have a bid rejected because it didn't conform to the Panel's wishes.

Timescale and milestones for the bid: The requirements to submit details at certain stages will determine the planning and shape of the bid workload.

Bid progress payments need to be known: Often expressions of interest, bid documents and bid milestones require refundable or non-refundable payments. Some stages may also require the posting of a large bond to demonstrate financial strength. All these have to be budgeted for.

Probity requirements must be understood: Many governments require such depth in their probity investigations that companies or individuals, however honest, may resent or reject them.

Degree of conformity of the bid must be clear: It is important to know which criteria are absolutely fixed and which can be varied. Site, tax rates, additional tourist facilities and up-front fees are just some of the items which could be used to make one package more attractive than others.

Licence exclusivity and duration: The degree of competition expected within the country or city will determine the achievable customer base and mix. Of course, monopolies are worth more than competitive casinos and longer licences are worth more than shorter ones.

Licence fees and taxes must be understood: These will either be specified by government or left as discretionary parts of the bids.

Limitations in games must be known: Any limitation in the type, number or denomination of tables or slots will diminish the value of the licence.

Reporting requirements must be understood: The degree of government intervention in the running of the casino must also be specified, as different levels involve different costs to the casino. New Jersey, for example, has had, in the past, a policy of high involvement with the day-to-day running of casinos. This is not only costly in terms of fees, but also in management time. It can also get to the stage where purely commercial decisions are influenced by regulatory people. In general, the fewer and the more formalised the reporting requirements, the cheaper and more efficient it is for the casino to operate.

Staffing and surveillance requirements must be known: Here, too, governments sometimes set minimum requirements. This can be expensive if, for example, they overspecify surveillance equipment and standards.

Hidden costs must be uncovered: The term "hidden costs" covers those landmines which explode after the licence is granted. Requirements such as the licensee paying to build a road, a pedestrian walkway, a hotel, a convention centre or similar items need to be understood in the beginning of the process. At the risk of being pedantic, make sure everything is spelt out beforehand.

Locating the Operator

The following qualities are vital for an operator to possess:

Trustworthiness: The operator should be licensed in a reputable jurisdiction. This is a good indication of probity. In addition, if he cheats or otherwise becomes unsuitable he may lose his other licences too.

Experience: The operator should be well established, with a good track record. It is preferable to have an operator whose management team has already opened casinos, preferably in a second country.

Market knowledge: Pick an operator who runs the same type of operation as the proposed casino. If the casino will be catering to premium players and junkets, there is no point choosing a grind operator. Not only will he not be able to bring high roller business with him but also his operating philosophy and staff orientation will be unsuitable for your proposed casino.

It is also desirable to pick an operator who knows the country, even if it is only to the extent of having regular patrons from that country in his existing casino(s).

Financial strength: Ideally the operator will contribute to the bid, not only by supplying executive time in putting it together but also by paying a proportion of the external costs.

If the operator also contributes to equity it gives financial institutions and other potential investors more confidence in supporting the bid. This "hurt money" requirement also applies to any other members of the bid consortium.

Impressiveness: Hopefully, one will have knowledge of the preferences of the Selection panel and a suitable operator can be chosen accordingly. For example, an operator known only for determinedly downmarket operations, whose casinos had cheap finishes, would not impress a panel which had made up its mind that premium play was the best way to go.

What Do You Do Then?

Next, two things need to be accomplished—both easier said than done properly. The first you do before committing yourself to the operator. The second you do together as the bid consortium.

Everyone does their homework: You do your homework on the operator. Not only do you have to cover the issues expressed above but you also have to convince yourself that you can have a friendly long-term relationship with him. Check him out in every way.

The operator has to do his homework, not only on you but also on the true market potential. Unless the operator is totally convinced that he is the perfect operator for your market then you are fooling each other. There have been too many instances where wishful thinking on the part of both parties has been the driving force behind long wastes of time in negotiation. Having satisfied himself, the operator must then convince you that he is the right one.

Everyone continues to improve: You have convinced each other that you are the perfect team. Unfortunately there are maybe five other perfect teams in the race. It is important that you don't sit back, amazed at how wonderful you are. The Selection panel may not see you in the same light.

You have certainly to be objective about yourself and the competition. Improve your presentation, take every chance of putting your best side forward, impress the Selection panel with your expertise and understanding of the situation and make sure your competition's weaknesses are not forgotten.

What Company Structure Should the Vehicle Have?

The structure of the emerging company depends on many factors such as one prescribed by the brief, the country's corporate laws, the tax-effectiveness of various structures, the requirements of the principals, and the ability to change the structure over time.

There are almost infinite possibilities here and covering them would require another paper. A couple of points should, however, be made. The first is that the structure will probably change over time. As time passes the relationship between the parties will go through planned changes and it is usually better to modify the structure to reflect them. These changes usually simplify the structure, and can be associated with events such as retiring debt, the selloff of builder equity, the public float of some or all of the equity, and a change from trust to company. All of these changes are easier to manage if they are planned from the start.

Secondly, even where government requirements are very similar there can be quite a variety of structures adopted. An example is Australia, where the States that licensed casinos had almost identical requirements, yet the company structures of the casinos are quite different.

How Much will the Bid Cost?

Casino bids are usually very expensive. In Australia between 1989 and 1994, bids costing US\$3.5 million were not uncommon. It is important, before setting out on a casino bid, to have some idea of the potential costs. There are all sorts of areas in the bid process which can soak up money and only some of these can be foreseen fully. There have been few, if any, bid processes where the eventual costs were budgeted for and met.

Principal Costs

The main areas of costs include:

Fees to the government which are often imposed in order to pay for the government's expenses in conducting the process;

Costs of professional assistance including feasibility studies, compliance with legal and financial requirements, and expert advice tend to be the

principal expenses. Don't forget the costs of legal agreements between the bid consortium's partners.

The cost of your own executives and support staff must not be overlooked.

Design and architectural expenses must be included. Drawings, models and perspectives have to be produced and incorporated in the bid document.

The cost of producing the final bid document should be estimated. This document has to be comprehensive and impressive—in other words, expensive.

Travel and living expenses for executives and staff during the bidding process. These can often be costly, especially if principals and advisers are from countries other than the country where the casino will be located.

Success Fees

There is one area where the upfront costs of the bid may be reduced. It is that of success fees, where advisers are offered, instead of their normal fees, a multiple of these fees if the bid is successful, with nothing if it fails. This may be applicable to accountants, lawyers, tax experts, and similar consultants whose costs are mainly in fees. It may not be applicable to the architect, for example, if he has to pay other specialists. In this case he would expect at least his costs to be covered, perhaps absorbing his own time on a success fee basis.

Legal Fees

For all relationships within the bid process it is important that there is a form of contractual relationship. In drawing this up it is as well to bear in mind that bid processes often extend beyond the original timetable, and that additional questions by the Selection panel can involve a lot of unforeseen work. If extra, unforeseen costs start to accumulate it can put a strain on any relationship.

Who is Involved in the Development Process?

There are three stages to a casino development process before the casino opens. These are the pre-bid negotiation, the bid process, and development, building and pre-opening. Each of these stages involve teams of experts. The principal ones are included in the following discussion.

Pre-bid Negotiation

In the pre-bid negotiation period each principal of the bid may have his own team of advisers. The principals will include the developer, operator, builder, government, or anyone else with a major stake. Their

advisers can include lawyers, accountants, casino experts, merchant banks, and tax advisers.

Bid Process

When the principals put their bid vehicle together there is only one set of advisers. Apart from those named above, these can include government liaison experts, bid-design experts, and an architect. In turn, the architect may sub-contract with an array of specialists in fields such as acoustical engineering, air-conditioning, artists, communications, depreciation, electrical, entertainment, environmental, fire, hydraulics, interior design, landscaping, lifts, lighting, mechanical engineering, model building, programming, quantity surveying, structural engineering, traffic, and urban design and planning. This list gives an idea of the complexity of the process, which is often carried out within a very tight timescale.

Because of the time frame, it is absolutely essential to have a central focus, with authority to set timetables, call for outputs and make real decisions on the run. The name is not important, but for the purposes of this paper, this person will be referred to as the project manager.

The interrelationships between the specialisations, when mapped, look like a bowl of noodles. A slippage in one area may affect many others, some of which have fixed minimum time requirements such as model-building, for example.

Another area, usually forgotten, is that of production of reports. Typing, printing, reproduction and binding cannot be carried out in less than a certain time. This part of the process needs to be planned for in the course of the project.

The importance of the project manager's role cannot be overestimated.

Development

During this phase the bid team continues its work, adding or dropping specialists as required. Apart from the specific casino fitout, this stage is similar to any other major construction project.

Formulating a Strategic Plan

The strategic plan should address the three areas of pre-bid, bid and development. Strategic planning is involved in all stages of the process, including:

- selection of the right team,
- how best to meet the criteria of the selection panel, and
- bringing the completed project in on time and within cost.

The team selection process is omitted here, as it is described earlier. Also omitted is the construction process, which is common to any major

development. It is the second area that is concentrated on—that of the bid process.

The first thing to stress is that strategic planning, in the context of this paper, is a dynamic process. Almost by definition the government and selection panel are doing this for the first time, the bid team—comprised of a number of diverse organisations and individuals—has been brought together for the first time, the strengths and weaknesses of the competition may not be immediately apparent, and the timescale is limited.

Under these circumstances a rigid strategic plan could be catastrophic, as could the absence of a strategic planning process. No hard and fast rules can be laid down for the plan, but some factors should be considered what the foundation should be, some of the key focuses which have to be maintained through the process, and the attitude that must be maintained in such a dynamic environment.

Foundation

There should be a strategic planing and review body, which meets periodically to discuss the progress and targets of the process. Key stakeholders should be involved (developer, operator, financier, etc.) as should key functional people (architect, lawyer, accountant, merchant banker and, of course, the project manager). Others may be included as appropriate.

This body should review the work over the past period, assess the competitive and selection environment and set directions in which to proceed and targets to be met during the next period. It should not get lost in the non-essential decisions that will crop up all the time, but instead, should keep an eye on the big picture.

Key Issues

Some key issues to be continuously reviewed include the following:

- What does the government selection panel really want from the eventual licensee? Is it up-front money, an income stream, tourism development, or a combination of items? The best understanding of their goal must become the team's target. However, their goal may be evolving throughout the process, so it is essential to continue speaking to them in order to keep up to date.
- the cutting down of options. No process lends itself like a casino bid to the multiplication of options. Everyone has a favourite winning strategy and these are often pursued in parallel, thus weakening them all. The most likely strategies must be concentrated on and kept to an absolute minimum in order not to dilute limited resources.
- continuously returning to the selection panel to hear their reactions to your ideas. Drop the ones which get a lukewarm response.

- Evaluate the competitors' strengths and weaknesses. Without crudely running them down make sure that the selection panel is aware of your team's advantage over the competition.
- Prepare and update an easily understood and easily altered review chart to assist in planning.
- Always issue unambiguous tasks and always get commitments for completion.
- Get financiers on board as soon as possible, firming your deals with them as the project itself becomes more closely defined. These include may include institutional investors, personal investors, banks, for loan finance, and advisers on a public float.

Attitude Maintenance

It is too easy to tick a box and feel that a task is done. The bid process is dynamic, so reviews should be retrospective, current and prospective. In other words—review, review, review.

Preparing a Casino Project Feasibility Study

There are three types of feasibility study that should be taken into consideration:

1. Market feasibility study. This study should help answer questions such as: Are the local population, visitors or potential gamblers likely to be able to support a casino? What type of casino and how large should it be?
2. Operating feasibility study. Given reasonable revenues can the operation be conducted in such a way as to promise a reasonable profit?
3. Project feasibility study. Taking the operating results as a starting point, will the capital requirements, tax regime and other non-operational features be capable of being supported?

Is it presumed at this stage that the basic homework has been done by all principal parties, that the government requirements on licence payment, taxes, facilities and such, are known, as are any limitations on the licence duration, games played or any other matter that might affect the viability or profitability of the licence.

Assuming the bid is being proposed by a developer, he should be most unwilling to leave the feasibilities of a casino to an operator, however reputable. Operators usually carry out their own feasibilities. A word of warning. Operators are prone to trust their own judgment in countries of which they have little or no experience. "It works for us in the US, it will work here too". But apply that to driving on the right-hand side of the road in the UK or New Zealand and you will soon end up dead.

So, whatever about the operator, who can usually look after himself very well, the other party or parties need advice from someone who knows about casinos, but preferably also knows the country in which the casino will be established. They should also be aware of the attitudes towards gambling of the people in that country and other countries in the region, who together will constitute the potential market.

Market Feasibilities

For any consultant to put his name to a feasibility study requires an intuitive leap from the known into the unknown. There is no magic formula by which you add A, B and C and reach X as a casino's performance.

Casinos in Las Vegas and Atlantic City have traditionally operated in fairly well-defined markets. Competition from other forms of gambling has been extremely limited until recently and, because these cities are supermarkets stocked with all the brands, it is individual marketing flair and positioning that affect performance. Las Vegas, with its move to a more total entertainment experience, is moving to insulate itself, in a way Atlantic City cannot do, from what will be a wave of competition from riverboat, Indian and urban casinos.

In Australia, with a relatively homogeneous population between States, the experience of existing monopoly casinos can be expected to be repeated by future monopoly casinos in other States. In general, the less organised gambling that already occurs in a country the harder the task is to predict future casino revenues.

Without going into detail about all the methods of homing in on a market, some of the main areas looked at would be:

- population, demographics and disposable income,
- existing visitors, both domestic and international,
- ease of access to the casino, domestically and internationally,
- regional propensity to gamble and outlets for it,
- residents who go to other countries to gamble,
- limitations on opening hours, types of gambling and credit, and
- the performances of other casinos in the region, from which some parallels can be drawn.

Patronage and revenue forecasts would be derived from these investigations. The intuitive leap mentioned earlier might still be considerable, but every possible empirical means would have been taken to reduce it.

Operating Feasibility

Knowing the markets the casino would be operating in, and the marketing efforts needed to attract business, a good estimate can be made of the operating cost of the business.

The easiest way to estimate operating costs for a new casino is to select as a starting point an existing casino, whose cost-structure is known. This should resemble the proposed casino as closely as possible in size and style of operation. The operating ratios of the existing casino would be applied to the proposed casino and modified by known differences between the two situations. These could include the labour rates and conditions, the market and game mix, the type of operator, the origin and cost of supplies, the tax structure, and many others.

If the casino is to be opened in a country with no existing casinos, then the expertise needed to run it has to be imported, at considerable expense. This has to be taken into account.

Applying the projected operating costs to the expected revenues would provide the profit forecasts.

Project Feasibility

This big picture requires the marrying together of the likely casino performance with the likely casino cost, in terms of financing and returns. This subject is beyond the scope of this paper.

Even so, there are three variables which this author would advise you to consider from the start, as they have a strong bearing on the economies of a casino in the crucial early years:

1. Elapsed time. The sooner the casino can begin to earn money the better. This may seem self-evident, but the progress of some casino projects appears to show it has not been given absolute priority.
2. Staging. If the casino complex has to have a hotel, convention centre, exhibition centre and all the other things governments sometimes want, then it may pay to stage the casino first, to give a good cash flow. The other elements can come on stream later.
3. Temporary casino. Having been promised a licence, you may be able to open a smaller casino converted from an existing building during construction. Again, cash flow would show the benefit of this. It is also the equivalent of a soft opening, as far as training staff is concerned.

What is the Casino's Relationship with the other Complex Facilities?

This question sometimes occurs with hotel chains which acquire or develop casinos. They have a hotel orientation which is often difficult to overcome. It has been known for the hotel general manager to be appointed general manager of the complex. This is to disregard where

the profit engine room is—in the casino. If the casino doesn't work then the other elements cannot save the complex.

The overall general manager must have a casino background or combine his job with running the casino. He can then provide a consistent quality of service and make decisions which maximise profit.

What do you look for in the other components of a casino complex?

The answer is simple—maximisation of profit. Ideally each component would not only make a profit but would justify its capital expense. Maybe the first bit is not a bad target. Don't budget for losses. Organisations which aim for losses are seldom pleasantly surprised by their results.

Realistically each component should aim for positive cash flow within the overall objective. Transfer prices should not disadvantage any section, which should mean that many costs, such as comps, should accrue to the casino itself.

What other components should a casino have?

This will vary with each circumstance. There are casinos around the world with every conceivable add-on. They have funfairs, golf courses, shows, convention and exhibition centres, circuses and bowling alleys. Nothing can be excluded where synergy between casino and the other components creates a greater whole.

Of course there are times when a government insists, for its own reasons, on including an element which is not commercially viable. The operator just has to live with that and to maximise the possible return.

In general, the additional components are likely to include the following:

- Hotel, with room configuration to suit casino patronage,
- Food and beverage outlets, from fast food to fine dining,
- Entertainment, from arcades to high-class shows,
- Convention and exhibition centres,
- Stadium/entertainment centre,
- Outdoor sports, golf/tennis/water sports,
- Quality retail shops, and
- other facilities for partners or families.

**Casino Gaming and the
Unwary Host Community—
Lessons Learned**
Candace Evert

The casino industry in
the United States has experienced an unprecedented growth over the last few years. For decades Nevada had the monopoly on legalized casinos and only experienced competition in 1978 when New Jersey approved casino gaming. Eleven years passed before another State legalized casinos, that being South Dakota which opened casinos in 1989. Since then, seven other states have legalized casino gaming, and Indian casinos can be found in an additional 18 states.¹

In the five years since South Dakota opened its first casino, anecdotal and quantifiable information on the economic, environmental and social aspects of this flourishing industry has been studied and discussed. One cannot dispute the economic benefits which casinos have generated for the communities in which they are placed. New jobs, substantial capital investment, increased public sector revenue, and increased spending by out-of-region tourists are a few of the more obvious benefits that casino gaming brings to a community.

Besides information on the economic benefits, the last five years of casino gaming have also provided insight into some of the potentially negative aspects of the industry, specifically those dealing with environmental and social problems. This paper draws on interviews with public sector representatives from casino venues around the United States as well as on statistics maintained by jurisdictions with casino gaming to identify and discuss these environmental and social issues. The research and findings are not intended to be an indictment of the value of casino gaming to a community but as information which local government jurisdictions and community representatives can use to prepare for the introduction of casinos. The paper emphasizes the need for planning before a casino opens to mitigate or eliminate the environmental and social problems associated with gaming. With proper planning, the problems can be resolved or substantially reduced, allowing the community to concentrate on and enjoy gaming's economic benefits.

Not all communities will experience the same environmental problems or experience them to the same degree. Environmental problems associated with casino gaming are dependent on the number, size and location of the casinos and on the condition of a community's infrastructure. As used in this paper, infrastructure includes streets, parking facilities, sewer and water capacity, and the available workload capacity of local government employees. The better the condition of the infrastructure in terms of available capacity to accommodate the influx of tourists, the better the community will adapt to casino gaming and the fewer environmental problems there will be. Thus, depending on these variables, environmental problems may not exist or may exist to a lesser degree, to a more acceptable degree.

Further, it is stressed that the environmental or social problems discussed in this paper are not unique or particular to the gaming industry. Rather, they can be found in any sector of the tourism industry which draws large crowds, be it a ski resort, a theme park or a heavily visited museum.

COMMON ENVIRONMENTAL ISSUES ASSOCIATED WITH CASINO GAMING

Casinos attract people, sometimes thousands of people per day. It is this attraction of people which is the genesis of the environmental issues discussed in this paper.

Casino customers unfortunately do not visit only on weekends or only after business hours, but descend on a gaming venue at any time during the week or day. Their arrival often clogs city streets, lengthening residents' commuting time; they take up much needed parking spaces, preventing residents from completing business or personal errands; their cars and buses increase the overall noise level; and they may, in an indirect way, cause a serious inflationary spiral to housing prices and thus the availability of affordable housing. Finally, from a social aspect, thousands of new tourists per day, can place a strain on police services as public safety personnel are called upon to respond to traffic congestion, parking violations, driving under the influence complaints, and other tourist related infractions.

With the heightened activity within a community, it is not unreasonable to expect local residents to wonder if gaming is worth it even with the economic benefits to be derived. Residents begin to remember the "good old days" before gaming and yearn to once again be able to drive downtown in five minutes, find a parking space without circling the block, and experience an undisturbed night of sleep, uninterrupted by vehicle noise at casino closing time.

Recent interviews conducted with representatives from several communities with casino gaming revealed common complaints about environmental or quality of life issues after casinos were opened. These common complaints are:

Planning Processes and the Social Impacts of Commercial Gaming

- Lack of Parking
- Traffic Congestion
- Loss of Non-Gaming Businesses
- Inflationary Housing Prices
- Employee Pirating
- Impact on Crime

Each issue will be discussed in this paper, accompanied by solutions implemented by the communities or by suggested solutions offered by the author.

PARK: THE NEW FOUR LETTERED WORD

Parking appears to be the most common environmental problem experienced by gaming communities and the one which generates the most complaints from residents. The past five years of casino gaming has shown how critical parking is not only to the success of the casino(s) but to the residents' positive perception and acceptance of this new industry in town.

In studying the Mississippi Gulf Coast, where there are currently ten casinos with more to open soon, and two of the three mining towns in Colorado which have close to 40 casinos between them, parking is the primary complaint of residents. In Mississippi, the casinos have built parking structures which will eventually solve the parking deficiencies, but during construction of the casinos, the Cities of Gulfport and Biloxi received numerous complaints from residents who could not park near their homes or businesses because the vehicles of construction workers occupied those spaces.

The geography of Central City and Blackhawk, Colorado, where casino gaming is legal, imposes construction constraints for both parking and residential/business structures. The towns are in narrow canyons with limited buildable land, preventing the construction of adequate and convenient parking structures or surface parking. In Blackhawk, the City built a parking area about two miles from town and intended to shuttle casino customers back and forth to the clubs. It is not being well received or used as people like to park close to their destination and do not like to wait for a shuttle. It is interesting to note that the most successful casino in Blackhawk is the one with parking directly across the street from its entrance, even though one can easily walk the casino district in less than ten minutes.

Casinos visitors to Central City and Blackhawk thus occupy most of the parking spaces previously used by residents, stretching the tolerance level of those residents who want to go to the post office or bank. Parking has become a quality of life issue of great importance in the two Colorado gaming towns studied.

In Davenport, Iowa, a town with a single casino, parking is not a problem. The gaming operator built surface parking next to the riverboat which is adequate to accommodate both bus and automobile needs. Additional city land is available to lease to the operator should more parking be needed.

Thus, as noted above, not all gaming towns will experience the same environmental problems. The degree of the problem is dependent on the number, size and location of the casinos and on the City's existing infrastructure of parking facilities and the vacancy rate and on the capacity of the gaming operators' on-site parking.

SOLUTIONS TO PARKING MALAISE

The provision of safe, close and adequate parking for casino customers is critical. It is critical to the success of the casino, and it is critical to the residents' acceptance of the casino as a new corporate citizen in the community.

Advanced planning and public/private sector cooperation are the keys to mitigating the impact of casino customers on a community's parking infrastructure. A parking study should be undertaken to identify the existing parking inventory and the occupancy rate at various times of the day. The findings should then be used in conjunction with the casino's market analysis, which estimates the number of daily vehicles, to determine the deficiency in existing city parking. The identified deficiency in parking requirements should be provided by the casino at its cost.

It is certainly not uncommon for cities to request the gaming operator to retain a parking consultant to estimate the number of parking spaces needed to accommodate gaming customers. It is also not uncommon for the operator to construct and maintain parking for the casino's customers.

During the casino construction stage, the City can take steps to assure that resident parking is maintained. It can reserve a portion of downtown parking for residents and/or it can request that the casino operator put in temporary parking on the casino site for construction workers.

In short, it is important that casino customer parking be provided but not at the expense of existing parking used by residents to conduct business or personal errands. For the success of the casino, parking should be close, convenient and safe.

TRAFFIC CONGESTION — RESIDENTS' NEMESIS

Increased traffic volume is another environmental issue which generates a high number of complaints from residents. Other than the Las Vegas market, and, to a lesser extent, the Reno and Atlantic City markets, gaming venues currently in existence around the country are drive-in,

rather than fly-in markets, attracting visitors from a radius of up to 200 to 300 miles. Most communities now considering gaming will also be a drive-in market. In preparing for the opening of a casino, a community would be wise to anticipate close to 100% of its visitors arriving by car or bus.

Iowa and Illinois gaming customers drive to the casino of their choice. The riverboats in Iowa drew 171,687 visitors in October, 1993, and those in Illinois drew 1,172,804 in August, 1993². The table below presents the average daily attendance by city.

Table 1	
AVERAGE DAILY ATTENDANCE — SELECTED MONTHS IOWA AND ILLINOIS RIVERBOATS	
	DAILY ATTENDANCE
IOWA	OCTOBER, 1993 ³
Davenport	3,978
Sioux City	298
Clinton	627
ILLINOIS	AUGUST, 1993
Alton	2,811
E. Peoria	4,119
Rock Island	3,374
E. Dubuque	2,569
Joliet	10,407
Aurora	4,938
Metropolis	3,996
E. St. Louis	5,645

As mentioned previously, not all gaming communities will experience the same environmental impacts or experience them to the same degree. As the above table indicates, traffic impacts may not be felt in Sioux City or Clinton, Iowa, with an average daily attendance of 298 and 627 respectively.

However, Joliet may well have reeled from the sudden infusion of over 4,000 additional cars per day on its city streets. Joliet currently has four casinos operating which obviously compounds the traffic problem when compared to a city with only one casino.

Interviews with city public works directors indicate that often they under estimate the traffic impact when planning for a casino development. It

is not unusual for city planners, public works officials and local residents to be shocked at the traffic generated by a casino or casinos. The demand for casino gaming has surprised not only city planners but gaming consultants and gaming operators alike. No one anticipated the pent-up demand for this form of entertainment, and when the traffic generated by casinos is super-imposed on rush hour traffic, the experience can be a frustrating and stressful one for residents.

Traffic problems primarily are being experienced in those gaming venues which have an unlimited number of casinos, such as in Colorado and Mississippi. However, similar problems can be felt in towns with one excursion riverboat if that riverboat loads or unloads during crucial traffic hours.

SOLUTION TO THE TRAFFIC JAM

Traffic problems can be mitigated, although never eliminated, with sound planning by city officials and by good cooperation between gaming operators and local governments. Cities have implemented the following solutions:

1. The city can install traffic lights in the vicinity of the casino and build access lanes or turning lanes into and out of the facility. These infrastructure improvements are commonly funded by the casino operator. It is to the operator's advantage to have easy and convenient access to the facility, especially if there is competition for the gaming customer.
2. In Gulfport, Mississippi, one gaming operator funded additional policemen for traffic control for those hours of the days when traffic was heaviest. The policemen are public employees who report to the Police Chief, but their salaries are paid by the gaming operator.
3. Cities in close proximity to each other which have casino gaming and traffic problems should pool their respective resources to address regional needs. In Gulfport-Biloxi which are contiguous neighbors, city planners realized the need for an alternative road to relieve the main arterial between the two cities. City representatives are now meeting on this infrastructure requirement, but it is one and one-half years after casino gaming commenced.
4. In gaming venues with riverboats required to make excursions — Iowa, Illinois, Louisiana, Indiana and Missouri — the loading and unloading schedules should be set so they do not conflict with rush hour traffic. Since most excursions are required to be at least two hours in length, scheduling around the commuting rush hour should be possible.

ZONING — A KEY TO MANAGING THE INDUSTRY

Jurisdictions which have legislation allowing an unlimited number of casino licenses can experience a rapid and unexpected proliferation of casinos throughout the community unless controls are put into place.

Planning Processes and the Social Impacts of Commercial Gaming

One only has to visit the gaming towns in Colorado or Deadwood, South Dakota to realize how quickly and completely casino gaming can take over a small town.

Casino gaming started in Colorado in the fall of 1991 in three small mining towns which had hit upon hard times with the demise of the mining industry. The population of these towns was less than 1,000 each, the infrastructure was in decay, and assessed valuation was stagnant or decreasing thus providing insufficient property tax revenue to fund improvements to public sector service levels or infrastructure. The city fathers and mothers supported casino gaming as a way to revitalize their communities.

Blackhawk, one of the three gaming towns in Colorado, was a town of 300 people with an assessed valuation of \$1.5 million before gaming. Two years later the assessed valuation has grown to \$95 million while the population has decreased to 100. Gaming took over about every commercial building and many residences, driving out the "mom and pop" stores and many of the retail services provided to the residents. Last year in Blackhawk, only two non-gaming businesses existed — the post office and a bank. A similar experience occurred in Deadwood, South Dakota.

How did this happen? What happened to the retail stores? Before gaming was legalized, but after discussion had begun on its possible introduction, land speculation ran rampant in all of the Colorado towns and in Deadwood. Gaming operators as well as local entrepreneurs bought up real estate in hopes of the gaming legislation being approved. This speculation drove up land prices, assessed valuation and, consequently, property taxes.

Owners of retail stores started to sell, either because they could not resist the prices being offered by gaming speculators or because they could no longer afford the property taxes. In short, a wholesale selling of the non-gaming business sector was experienced.

SOLUTIONS — ZONING AND REVISED APPRAISAL METHODOLOGY

If communities want to control the spread of gaming, their primary tool is a zoning ordinance. The ordinance should be considered prior to gaming legislation being passed and should restrict gaming to a specific, concentrated area or areas. Gaming operators talk of a synergism resulting from the placement of casinos in close proximity to one another. This synergism benefits the industry as a whole as the flow of customers from one casino to another is easy and inviting. Thus, it is expected that operators will support a gaming zone that is well-located and designed to fit their needs.

Along with zoning must come relief in the way non-gaming property located in the vicinity of the casinos is appraised. Currently, many

counties use a comparable sales methodology to appraise real property. The comparable sales method values a piece of property based on sales of comparable properties in the vicinity. Thus, when a property sells at an inflated price because the buyer is speculating on the introduction of gaming, the appraised value of that property is raised based on the selling price. Furthermore, the appraised value of properties near it will increase because recent property sales are used to value them. In the unlimited gaming license venues of Colorado and Deadwood, appraisals based on comparable sales contributed to the elimination of non-gaming retail stores.

In a highly speculative market, which has been part and parcel of the gaming industry in small towns with unlimited casino license legislation, comparable sales as an appraisal methodology works against the community. Losing non-gaming businesses deprives a community of its culture and the "glue" which holds a community together. Retail stores, be it a cafe or book store, are often the gathering place for residents to share on a daily basis the news and information of a community. Complaints from residents in the Colorado towns and in Deadwood talk of the "loss of community" and the difficulty in communicating and keeping up with their neighbors after gaming was introduced.

Local and state governments must revise appraisal techniques to protect non-gaming business interests from escalating property taxes which serve to drive them out of business. Perhaps zoning alone is the answer in that the gaming zone properties can be appraised on a comparable sales basis separate from the non-gaming zone properties.

HOUSING—IS THERE ENOUGH?

Housing poses a problem only if casinos need to import employees to fill jobs and if the existing inventory of housing is insufficient to handle the demand from these new employees. If the number of unemployed in a region is sufficient to fill the number of new jobs created by the casino, then the impact on housing should be minimal.

A shortage of housing feeds inflation as shown through escalating housing prices. Tunica, Mississippi, was once the poorest County in the United States prior to casino gaming. It is now experiencing an escalation in housing prices which is being driven by the introduction of seven casinos in the County since 1992. A recent article in USA Today notes: "The county's biggest change has come in land prices. 'A year ago, you couldn't sell a house, and now you can't buy one,' says Tunica County Comptroller Sheila Hartsfield. One frame house, standing in the shadow of Sugar Ditch (a neighborhood where once open sewers ran between tar-paper shacks) had been valued by the tax assessor at \$16,000, she said. It recently sold for \$60,000."⁴

Biloxi, Mississippi, with eight casinos operating is experiencing a housing shortage. Building permits for single family residences increased 45% from fiscal year 1992 to fiscal year 1993, from 92 to 134

Planning Processes and the Social Impacts of Commercial Gaming

permits. Harrison County, home to both Gulfport and Biloxi, saw a 57% increase in building permits over the same time frame from 649 to 1,021.

The result of insufficient housing forces the cost of housing upward. Additionally, low income housing is purchased and renovated for middle income families while at the same time forcing low income and fixed income people out of their homes in search of alternative housing. It can be argued that this situation has its benefits—blighted residential areas stand a chance of being reborn and renovated, and people who were unemployed before can now afford to fix up their homes or buy a higher priced home. However, the unemployed or economically disadvantaged run the risk of losing their housing.

SOLUTIONS

While a solution to the housing issue is beyond the knowledge of this author, it is imperative that at least cities take stock of the housing available, analyze what portion of casino employees will require housing, and estimate the housing insufficiencies that may result. This knowledge will provide the information necessary for the city to begin the dialogue with the casino developers, the housing authority, federal agencies and local social services to provide necessary housing.

Some tourist communities require that developers build or subsidize low income housing for their employees. Discussion is on-going in Reno, Nevada, regarding the obligation of casinos to provide low income housing although nothing definitive has been decided. Of issue is the legality of singling out one industry to support housing subsidies, and the financial impact such costs would have on the casinos' profitability and ability to compete and survive.

EMPLOYEE PIRATING—LOSS OF TRAINED WORKERS

Some towns are experiencing employee "cannibalism" as trained blue and white collar workers leave non-gaming jobs to work in the casinos. Businesses are losing long-term, trained employees, which poses a threat to their existence and livelihood.

In Biloxi, city government is having a difficult time recruiting and retaining employees for the lower paid jobs, such as clerks and maintenance workers. Where once a city job opening would attract scores of applicants, these jobs now go wanting. The construction industry is booming in Biloxi spurred on by casino construction; these jobs pay much higher than some government jobs and thus decrease the labor pool available for city jobs. The casinos also are offering good benefit packages, not to mention attractive tip income, and are luring job applicants from across job sectors and industries.

The promise of jobs also can pose a social problem for state and local governments from job seekers moving into a community in search of work. The City of Montreal was hard pressed to deal with the thousands of job seekers who moved there in hopes of a casino job. Those who did

not get jobs added a substantial burden to the Province's welfare roles as many did not have the resources to acquire housing or food.

Employers must be aware of the potential danger of losing employees to the casino. They should analyze the benefit packages and salaries offered by the casinos to assure that they are competitive. They may have to be creative in offering employee benefits if they cannot compete on salaries alone. Creative benefits such as on-site child care, flexible work weeks, and job sharing are some of the benefits to be considered.

CRIME—IS IT A DOWNSIDE OF CASINO GAMING?

The tourism industry, whether it is casino gaming or a ski resort, is going to impact local governments' budgets. An increase in people in a community increases the need for government services. With gaming, one of the primary services to be impacted is police protection.

Calls for service naturally increase when a community is suddenly flooded with thousands of tourists a day. If nothing else, calls for service increase due to more cars in a community which impact traffic related incidents. Conventional wisdom indicates that not only do tourists cause an increase in traffic congestion, but they attract unsavory elements which prey on the visitors who are carefree and careless with their money. Thus, the possibility for increased crime exists which puts additional strain on existing police resources.

Four cities with casino gambling were contacted to obtain workload and crime statistics before and after casinos were introduced. It was not possible to obtain data in the same format for all four cities, and the total number of calls for service was the only consistent measure maintained by all four. Thus, comparisons among the cities of police workload and crime statistics are difficult.

However, there does not appear to be an overall definitive impact, either negative or positive, on police workload or crime statistics in the cities studied. The impacts are mixed with one city showing calls for service decreasing after casinos were introduced, while another shows substantial increases. Some cities show violent crime decreasing one year and increasing the next, while another city shows it decreasing each year since casinos were opened. Obviously, much more research and study is needed to help explain the differences in impacts, to identify the variables which influenced changes in workload. Perhaps one city hired a substantial number of additional policemen whose presence on the streets reduced the number of calls for service, or perhaps a reduction in the unemployment rate positively impacted the number of calls. Such variables need to be analyzed prior to rendering a judgment on the impact of casinos on the crime rate and police workload.

The data available from each city are presented below, accompanied by descriptive information and analysis of the information.

Planning Processes and the Social Impacts of Commercial Gaming

Davenport, Iowa, began casino gaming in April, 1991. One riverboat operates from the downtown area, and it is required to make excursion trips on the river except in poor weather. The riverboat has averaged over 90,000 visitors per month since opening. Police workload and calls for service show a mixed trend with some measures increasing and some decreasing. In summary, the measures show:

1. Total calls for service have increased each year since the casino opened, with 8%, 5% and 3% increases in 1991, 1992 and 1993 respectively.
2. Part 1 calls for service, which are violent crimes against person and property, show a mixed trend with a 12% decrease in 1992 and increases of 4% and 5% in 1991 and 1993.
3. Part 1 calls in the area of the casino have decreased every year since the casino opened.
4. Total arrests show a mixed trend with decreases in 1991 and 1993 and an increase in 1992.

Table 2
CITY OF DAVENPORT, IOWA
Police Department Calls for Service and Crime Statistics

	1990	1991	1992	1993
Total Calls for Serv.	97,529	105,168	110,325	113,213
Change		8%	5%	3%
Total Part 1 Calls ⁵	10,893	11,308	9,967	10,437
Change		4%	-12%	5%
Ttl Juven/Adult Arrests	5,504	4,428	6,252	5,639
Change		-20%	41%	-10%
Casino Area Part 1 Calls	52	48	26	25
Change		-8%	-46%	-4%

Joliet, Illinois, currently has four riverboats in operation with the first boat opening in June, 1992. In March, 1994, Joliet hosted close to 16,000 casino customers a day. Police calls for service have consistently decreased since casinos were introduced into the community. Table 3 shows:

1. The total number of calls for service have decreased 2% in each of the years since gaming started.
2. Both Part 1 and Part 2 calls were down, with violent crime showing a decrease of 5% and 9% respectively in 1992 and 1993. Non-violent calls were down 6% in 1992 with a minimal decrease in 1993.

3. Prostitution arrests were down 9% and 24% respectively in 1992 and 1993.

Table 3
CITY OF JOLIET, ILLINOIS
Police Department Calls for Service and Crime Statistics

	1991	1992	1993
Total Calls for Service	81,855	80,155	78,736
Change		-2%	-2%
Part 1 Calls	8,037	7,617	6,965
Change		-5%	-9%
Part 2 Calls	14,754	13,912	13,864
Change		-6%	0%
Prostitution Arrests	23	21	16
Change		-9%	-24%

Deadwood, South Dakota, initiated casino gaming late in 1989 and currently has 79 casinos operating. No statistics are available on the number of visitors per day. Police workload statistics were only available for total calls for service and for total arrests; additionally only the years 1990 and 1991 were included as a different computer system was installed after that and the 1992 and 1993 statistics are unreliable and unavailable for public dissemination. The City is maintaining records in 1994 and will continue to do so. Table 4 presents the data which can be summarized as follows:

1. Total calls for service increased substantially in the two years after casinos opened, by 72% in 1990 and by 29% in 1991.
2. Total arrests showed a 79% increase in the year after casinos opened.

Table 4
CITY OF DEADWOOD, SOUTH DAKOTA
Police Department Calls for Services
and Crime Statistics

	1989	1990	1991
Total Calls for Serv.	1,483	2,555	3,295
Change		72%	29%
Arrests:			
Traffic	411	740	
DWI	74	70	
Criminal	155	323	
Juvenile	36	76	
TOTAL	676	1,209	
Change		79%	

Gulfport, Mississippi, had two casinos open in 1993, one in May and one in September. No information is available on the number of visitors to each casino; however, one of the casinos is one of the largest on the Gulf Coast with 65,000 square feet of gaming space. Information from the Police Department on workload is summarized in Table 5. Unfortunately, the breakdown of types of calls for service which the Department provided does not equal the total number of calls for service, as only criminal related and traffic related calls are identified. A mixed impact is shown:

1. Total calls for service decreased by 5% in the year the casinos opened when compared to the previous year.
2. Part 1 calls increased by 7%, and traffic related calls by 21%.
3. Domestic violence/child abuse calls decreased by 5%.

Table 5
CITY OF GULFPORT, MISSISSIPPI
Police Department Calls for Services and Crime
Statistics

	1992	1993
Total Calls for Serv.	71,029	67,290
Change		-5%
Part 1 Calls	5,041	5,402
Change		7%
Traffic Related Calls	5,221	6,327

Table 5
CITY OF GULFPORT, MISSISSIPPI
Police Department Calls for Services and Crime
Statistics

	1992	1993
Change		21%
Domestic Violence/Child Abuse Calls	3,113	2,959
Change		-5%
Other ⁶ Calls	3,705	3,811
Change		3%

The crime statistics and calls for service information presented above emphasizes that there is no definitive answer yet as to whether casino gaming increases or decreases crime in a community. It is only since 1989 that casino gaming has spread quickly across the United States, an insufficient amount of time to develop conclusions. However, the information provided thus far does seem to lend serious doubt to the conventional wisdom that crime is a natural by-product of casinos.

Conclusions

Common environmental and social problems associated with casino gaming were discussed in this paper. The information came from personal interviews with community representatives in gaming towns and from statistics maintained by cities with casino gaming.

It is stressed that the degree to which communities will experience these problems, if at all, will depend on the number, size and location of casinos and on the condition of the community's infrastructure, such as parking, street capacity, and housing inventory.

Mitigation or elimination of the problems is first and foremost addressed by up-front planning, before casino legislation is approved and certainly before the first casino licenses are issued. Through planning and through public and private sector cooperation, the problems of parking, traffic congestion, dispersion of casinos throughout a community, and inadequate housing can be addressed. Such planning and cooperation will help to assure that the economic benefits associated with gaming can be appreciated with minimal disruption to a community's quality of life.

APPENDIX 1

The table below lists the states with casinos, the year the casinos opened and the number of casinos in existence as of December, 1994.

Table A

STATES WITH CASINO GAMING
Legalized Since 1989

State	Year Casinos Opened	December, 1993 No. of Casinos
South Dakota	1989	81
Iowa	1991	3
Colorado	1991	70
Illinois	1991	11
Mississippi	1992	16
Louisiana	1993	2
Indiana	1994	0
Missouri	1994	0

NOTE: Indiana and Missouri casinos are anticipated to open in 1994.

Table B lists the States with Indian Gaming. It includes six States where casino gaming has been legalized and 18 states where only Indian gaming is allowed.

Table B

STATES WITH INDIAN GAMING⁷

Alabama	Mississippi
Arizona	Montana
California	Nebraska
Colorado	Nevada
Connecticut	New Mexico
Florida	New York
Idaho	North Dakota
Iowa	Oklahoma
Kansas	Oregon
Louisiana	South Dakota
Michigan	Washington
Minnesota	Wisconsin

ENDNOTES

¹ See Appendix A for a listing of the States with casino gaming and Indian gaming.

² October statistics are used for Iowa since the summer months' attendance were impacted by the "Great Flood of 1983."

³ October reporting period includes September 27 through October 31, a 35 day period.

⁴ *USA Today*, October 26, 1993.

⁵ Part 1 calls involve violent crime against person or property.

⁶ Includes disturbing the peace, drug violations, forgery, prostitution, public drunkenness, and illegal gambling.

⁷ Source: *Gaming and Wagering Business*, March 15 - April 14, 1993.

Genting & Resorts World

Genting Triumphs in Singapore!

- **Victory marks a significant turning point for Genting:** Genting's Genting International (GIL) and Star Cruises consortium has won the right to build a S\$5.2BN (M\$12BN) integrated casino resort in Sentosa, beating rivals Kerzner-Capitaland and Eight Wonder. The victory helps propel Genting one step closer in its aim to become the world's third largest casino operator. More importantly, this news should also help quell investors concerns that Resorts World's longer-term competitive position in Malaysia is at risk.
- **Positive sentiments likely to drive share prices in the near term:** Given Genting's higher effective stake of 46% in contrast to Resorts World's 14% in the Sentosa IR, Genting shares are likely to rally ahead of Resorts. However, we advise investors against chasing Genting shares in the near term as (1) potential equity raising activities to the tune of M\$4BN may cap near term performance (2) we see potential downside earnings risk to our FY07-09E forecasts and (3) earnings from Sentosa IR is only expected to kick in from 2010 onwards.
- **Raising price targets; reiterate preference for Resorts World:** We have raised our Dec-07 price targets on Genting and Resorts World to M\$32.20 (10% upside) and M\$17.20 (28% upside) to reflect the recent strength in GIL and Star Cruises share prices as well as higher visitor arrivals for Resorts from FY10. While we recognize Genting's exciting growth opportunities in the long run, we believe Resorts World offers a more compelling investment case on improving fundamentals and cheap valuations. At current prices, Resorts is trading at 14X FY07E P/E vs its global casino peers at 31X.

Genting Berhad (Bloomberg: GENT MK; Reuters: GENT.KL)

Year-end December	FY05	FY06E	FY07E	FY08E		
Sales (M\$MM)	5,454	6,396	6,999	7,379	52-week range	M\$19.9-M\$30
Core Net profit (M\$MM)	971	1,355	1,418	1,544	Market cap (M\$MM)	20641.90
Core EPS (M\$)	1.38	1.92	2.01	2.19	Market cap (US\$MM)	5432.08
DPS (M\$)	0.29	0.27	0.29	0.31	Shares outstanding (MM)	705.71
Sales growth (%)	17.4%	17.3%	9.4%	5.4%	Free float	58%
Net profit growth (%)	20.0%	39.6%	4.6%	8.9%	Avg daily value (M\$MM)	21.1
EPS growth (%)	20.0%	39.6%	4.6%	8.9%	Avg daily value (US\$MM)	5.9
ROE (%)	10.8%	14.1%	13.1%	12.6%	Avg daily vol (MM)	0.8
ROCE (%)	20.3%	19.2%	19.7%	19.5%	KLCI	1098.6
P/E (x)	21.2	15.2	14.5	13.3	Exchange rate	M\$3.55 / US\$1
P/BV (x)	2.3	2.0	1.8	1.6	Performance	1 mth3 mths12 mths
EV/EBITDA (x)	6.2	5.9	4.5	3.7	Absolute (%)	10.4%20.0%48.8%
Gross div yield (%)	1.0%	0.9%	1.0%	1.1%	Relative (%)	2.9%2.1%22.5%

Source: Company Reports and JPMorgan Estimates.

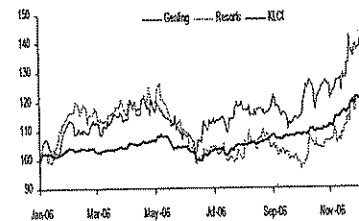
GENT.KL
Overweight
M\$29.25
08 December 2006
Price Target: M\$32.20

RWBW.KL
Overweight
M\$13.30
08 December 2006
Price Target: M\$17.20

Malaysia
Gaming, Gaming

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Genting and Resorts - Absolute Share
Price Performance



Source: Bloomberg

JPMorgan Securities (Malaysia) Sdn. Bhd. (18146-X)

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What does it mean for Genting to win the bid?

Genting's victory marks a turning point for the overall Genting Group, in our view:

1. **One step closer to becoming a global casino operator:** We believe this news brings along many exciting opportunities that can help propel Genting a step closer in realizing its aim of becoming the third largest gaming company in the world by market value. At the same time, management at Genting can now showcase its presence in Singapore to strengthen its foray into other untapped markets such as Japan, Thailand and Macau.
2. **Resorts World's long-term competitive position in Malaysia is preserved:** In the near term and more importantly, this piece of news should help quell investors concerns that its operations in Malaysia (ie Genting Highlands owned by Resorts World) would suffer as a result of impending competition from Singapore when the resort opens in 2010. In fact, we believe that Resorts World at Sentosa and Genting Highlands in Malaysia will serve as complementary drivers to one another where we envisage the two resorts working together to further enhance the operations between the two countries.

Figure 1: Balance Sheet position for Genting, Resorts World, Star Cruises and Genting International as of 3Q06

Genting Bhd	M\$ MM
Total cash	6,975
Fixed assets	8,326
Other assets	6,789
Total assets	22,090
Total debt	5,070
Other liabilities	1,901
Total liabilities	6,970
Net gearing / (cash)	(19.2%)

Resorts World Bhd	M\$ MM
Total cash	2,068
Fixed assets	3,548
Other assets	2,795
Total assets	8,410
Total debt	1,222
Other liabilities	988
Total liabilities	2,210
Net gearing / (cash)	(13.7%)

Genting Intl plc	S\$ MM	M\$ MM
Total cash	571	1,309
Fixed assets	26	59
Other assets	781	1,791
Total assets	1,377	3,159
Total debt	0	0
Other liabilities	68	156
Total liabilities	68	156
Net gearing / (cash)	(43.6%)	(43.6%)

Star Cruises Ltd	US\$ MM	M\$ MM
Total cash	166	588
Fixed assets	4,340	15,397
Other assets	841	2,985
Total assets	5,347	18,970
Total debt	2,822	10,012
Other liabilities	638	2,264
Total liabilities	3,460	12,276
Net gearing / (cash)	140.8%	140.8%

Source: Company Reports

*Note that reported figures are prior to Stanley Leisure acquisition in 4Q06.

We expect a slew of fund raising activities to follow

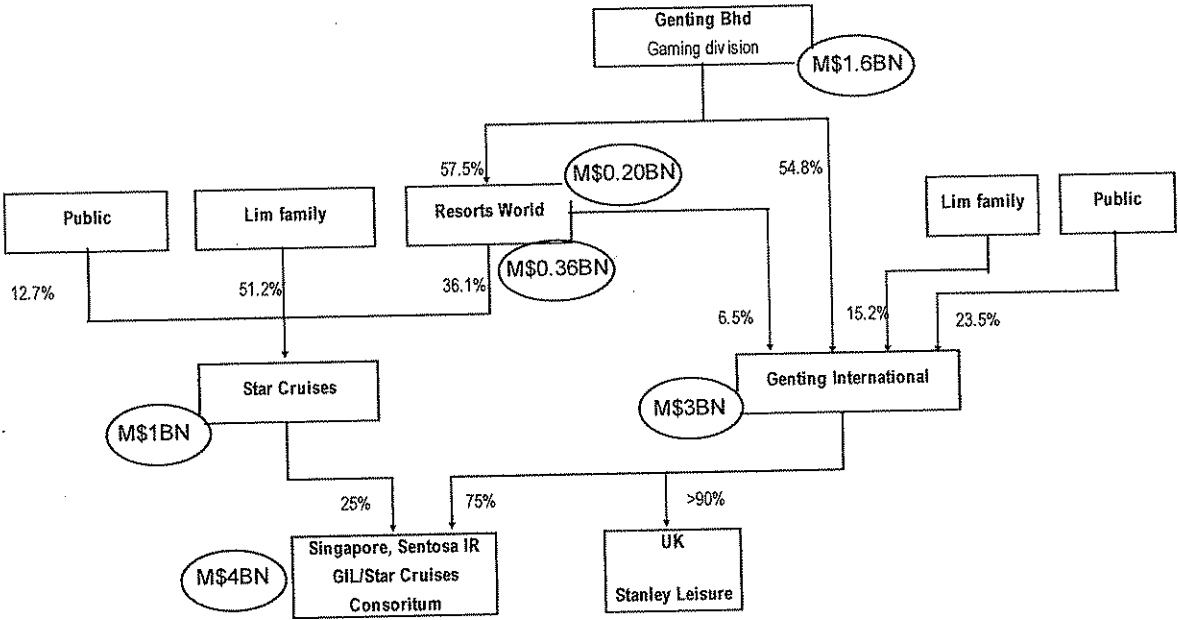
Following the win, we think the most immediate question that comes to investors minds are – how would the consortium fund the project? We expect management to provide more details in the following days to come. However, in the following section, we attempt to take a stab at this to give investors a general idea as to where potential fund raising activities could arise within the Group.

Based on the project development cost of S\$5.2BN (M\$12BN) and assuming a debt to equity ratio of 67:33, we estimate that Genting, via its consortium (Genting International (GIL) and Star Cruises (75:25)) will invest about M\$4BN in equity in the project. We envisage the consortium raising additional capital via the Genting Group and the capital markets in the following manner:

- **Star Cruises (STRC SP, NR):** We estimate Star Cruises will likely raise about M\$1BN in equity to fulfill its 25% stake in the consortium. Management could potentially undertake another rights issue or consider accelerating the possible listing of Norwegian Cruise Lines in the US.
- **Genting International (GIL SP, NR):** We estimate GIL will likely raise around M\$3BN in equity to fund its 75% stake in the consortium. We think management may consider a rights issue as a possible option.
- **Resorts World (RNB MK, OW):** Given its 13.9% effective stake in the Sentosa project, we estimate that Resorts World will invest a total amount of around M\$560MN. The necessary funds have already been set aside from its recent M\$1.1BN convertible bond issue.
- **Genting Berhad (GENT MK, OW):** In the event GIL undertakes a right issue, we estimate Genting will have to invest about M\$1.6BN of equity for the project. We think management could either opt to run down its existing cash pile of M\$1.6BN (sitting at the company level) or perhaps

explore other equity raising initiatives which may include a potential share placement.

Figure 2: Sentosa IR Corporate Structure: Where would the M\$4BN equity flow from?



Source: Company reports, JPMorgan estimates

Sentosa IR earnings will not kick in until 2010

Earnings contribution from the Sentosa IR is not expected to kick in until 2010 when the resort opens. Come 2010, we expect the Sentosa IR to lift our earnings estimates for Genting and Resorts World by 13% and 3% respectively. However, from now till 2010, we see potential downside risk to our FY07-09E earnings forecasts. This is due potentially higher interest payments from higher borrowings as a result of financing the Sentosa IR project.

Assuming a 5% borrowing cost and the following IR development costs (see table 1) based on a 67:33 debt to equity funding ratio, we foresee trimming our earnings forecasts for Genting by 5.3%, 3.5% and 3.4% and Resorts World by 1.3%, 0.9% and 0.8% in FY07E, FY08E and FY09E respectively. The impact to Genting is higher given its higher effective stake in the project vis-à-vis Resorts World. We also expect Genting's net gearing ratio to increase from 15% (post Stanley Leisure acquisition) currently to >70% by FY09E.

Table 1: Estimated development cost for Sentosa IR

	% owned			
GIL	75%			
Star Cruises	25%			
Total investments (In S\$MN)	5,200			
Debt funding	67%			
Equity funding	33%			
Borrowing cost	5%			
In S\$MN		2007	2008	2009
Land cost		605		
Construction capex	4,595	1,532	1,532	1,532
Total investments		2,137	1,532	1,532
Debt	67%	1,424	1,021	1,021
Equity	33%	712	511	511

Source: JPMorgan estimates.

Table 2: Potential earnings impact to Genting

Share price (M\$)	29.25			
No of shares	704			
Genting's effective stake in JV	46%			
Forex	2.30			
In M\$MN	2007E	2008E	2009E	2010E
Contribution from Sentosa IR	-	-	-	276
Less interest expense	(76)	(54)	(54)	(54)
JPM's current NP estimates	1,418	1,544	1,601	1,713
Net profit after Sentosa IR	1,342	1,489	1,547	1,935
% change	-5.3%	-3.5%	-3.4%	13.0%
Net profit growth				
Pre-Sentosa IR	5%	9%	4%	7%
Post-Sentosa IR	-1%	11%	4%	25%
P/E				
Pre-Sentosa IR	14.5	13.3	12.9	12.0
Post-Sentosa IR	15.3	13.8	13.3	10.6

Source: JPMorgan estimates.

Table 3: Potential earnings impact to Resorts World

Share price (M\$)	13.40				
Resorts' effective stake in JV	9%				
Forex	2.3				
In M\$MN		2007E	2008E	2009E	2010E
Contribution from Sentosa IR					55
Less interest expense	(15)	(11)	(11)	(11)	(11)
JPM's current NP estimates	980	1,127	1,218	1,266	1,378
Net profit after Sentosa IR	1,112	1,207	1,255	1,422	
% change	-1.3%	-0.9%	-0.8%	3.2%	
Net profit growth					
Pre-Sentosa IR	15%	8%	4%	9%	
Post-Sentosa IR	13%	9%	4%	13%	
P/E					
Pre-Sentosa IR	16.0	13.9	12.9	12.4	11.4
Post-Sentosa IR	14.1	13.0	12.5	11.0	

Source: JPMorgan estimates.

Revising up price targets: Prefer Resorts World

We are revising up our Dec-07 price targets on Genting and Resorts World from M\$30.80 to M\$32.20 and from M\$16.50 to M\$17.20 to reflect (1) the recent strength in Genting International and Star Cruises' share prices (2) our revised target price for Resorts World and (3) an improvement in Resorts World's visitor arrivals from FY10E. Based on our revised price target, Genting and Resorts offers 10% and 28% upside potential respectively.

Although we expect Genting's share price to rally ahead of Resorts World in the near term on the back of the initial euphoria of winning the bid, we advise against chasing the stock at current levels as we believe the excitement will subside once the market starts pricing in capital raising activities.

We maintain our view that Resorts World continues offer a more solid investment case based on strong fundamentals and cheap valuations. Key points supporting our view include (1) the fact that Resorts is trading at a P/E discount to Genting despite contributing more than 60% of Genting's earnings in the near term (2) a potential turnaround for Star Cruises could spur a re-rating in the stock and (3) limited event risk associated with fund raising initiatives as management has already prepared the necessary funds following its recent M\$1.1BN convertible bond issue. We therefore reiterate our preference for Resorts World.

We believe key risks for Resorts World include poor luck factor, stock overhang caused by recent M\$1.1BN convertible bond issue and regulatory risks. Key risks for Genting include capital raising activities.

Table 4: Genting RNAV valuation

Listed subsidiaries	% owned	No of shares	Price	Market value	M\$ / share	Valuation method
Resorts World	57.7%	1,172	17.20	11,631	16.51	Based on JPM target price
Genting International	57.0%	5,441	0.95	2,960	4.20	Based on market price
Asiatic Development	54.7%	741	3.24	1,314	1.87	Based on market price
				15,906	22.58	
Unlisted subsidiaries						
Power (domestic + offshore)	58.6%			1,966	2.79	Based on DCF (WACC: 8%)
Paper	97.7%			352	0.50	Based on 8X P/E
Management fees from Resorts	100.0%			5,364	7.62	Based on DCF
Oil & gas	95.0%			1,520	2.16	Based on 8X P/E
				9,202	13.06	
Company level cash / investments				1,564	2.22	As of FY05
Total				26,671	-	
No of shares				704	-	
RNAV (M\$/share)				37.87	37.87	
Target price @ 15% discount				32.20	32.20	

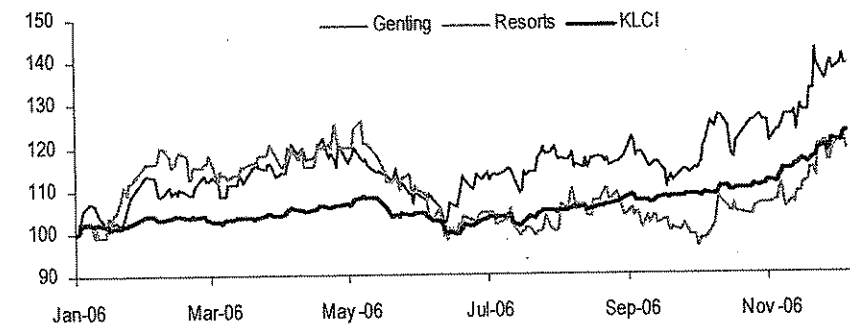
Source: JPMorgan Estimates.

Table 5: Resorts NAV valuation

	M\$ MN	M\$ per share	Comments
Enterprise value	16,906	14.43	Implies 9.6X FY07E EV/EBITDA
M\$1.1 BN Convertible bond	1,100	0.94	
Net cash	500	0.43	Net of M\$250MN to account for Star Cruises rights issue
Equity value	18,506	15.79	Implies 14.4X FY07E P/E ex-cash
36%-stake in Star Cruises	1,305	1.11	Based on current market price
6.5%-stake in GIL	323	0.28	Based on current market price
Total equity value	20,134	17.18	
No of shares (MM)	1,172		Fully diluted shares
Price target (M\$)	17.20		

Source: JPMorgan Estimates

Figure 3: Genting and Resorts - Absolute Share Price Performance

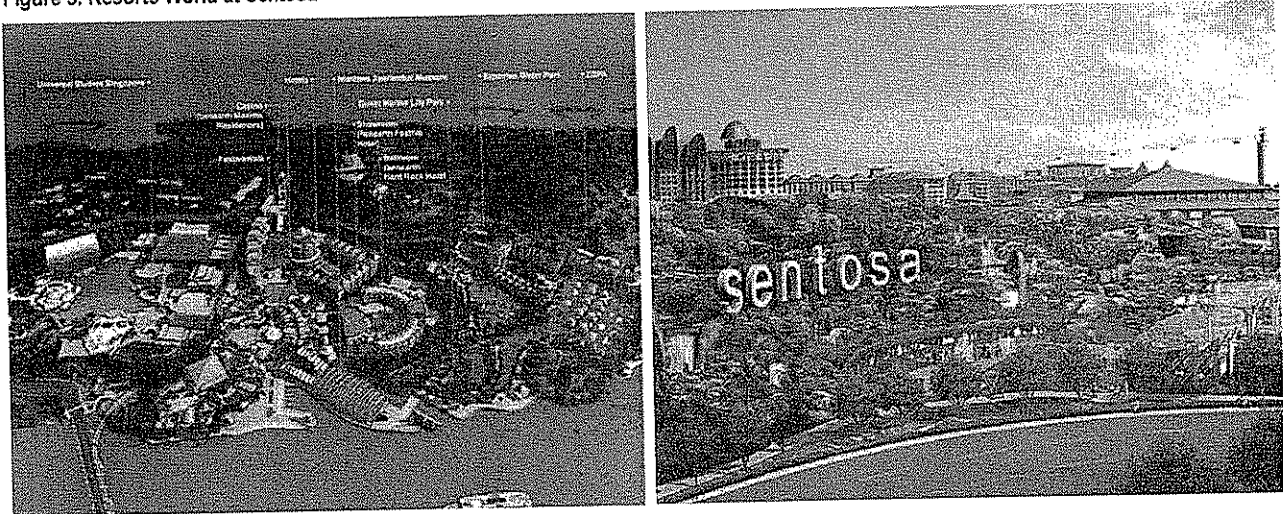


Source: Bloomberg

Salient details of the Sentosa IR

- Called Resorts World at Sentosa, Genting targets to open the family-styled resort by 2010. The resort will include the region's first Universal Studios theme park, the world largest aquarium, a state-of-the-art water theme park, the world's first maritime museum dedicated to Asian maritime heritage and six-world class hotels providing 1,830 rooms.
- The resort aims to attract 15 MN visitors by 2010 in contrast to the 18.7MN visitors achieved by Genting Highlands in Malaysia last year.
- Universal Studios has signed a 30-year agreement to manage the theme-park for Genting and the company does not have an equity stake in the project.
- GIL-Star Cruises intends to invest up to S\$5.2BN to develop the Sentosa IR out of which S\$1.6BN has been earmarked for Universal Studios. Management also guided that it will spend S\$200MN p.a to upkeep the resort and to ensure that the resort remains 'fresh' and relevant. Additionally, management expects the resort to generate IRRs of 15-20% funded by 1/3 equity and 2/3 debt.

Figure 5: Resorts World at Sentosa



Source: Courtesy of Genting Group.

Table 4: Key gaming specs for the Sentosa IR

Site Parameters	Land area of approx 49 ha, max GFA of 343,000 sqm Land tenure of 60 years
Casino Concession	30 years concession to operate the casino
Restrictions on Gaming Areas and Machines	Max gaming area allowed is 15,000 sqm Max number of gaming machines allowed is 2,500
Casino Tax	The IR Operator shall pay a casino tax of: - 15% on monthly gross gaming revenue from regular players - 5% on monthly gross gaming revenue from premium players * The government will not raise this casino tax for at least 15 years

Source: Singapore Tourism Board

Table 5: Sentosa IR: How did Genting compare vis a vis the other bidders

Proposal	Genting - Star Cruises	Kerzner - Capitaland	Eight Wonder
Total investment commitment	S\$5.2 billion	S\$5.28 billion	S\$5.5 billion
Theme	Family-themed	Water-themed Aquasphere - the world's largest aquarium	Eco-friendly theme World-class food and beverage haven with about 50 outlets
Key Attractions	Universal Studios Singapore Quest Marine Life - world's largest oceanarium Equarius Water Park Xperiential Maritime Museum	Aquaventure water theme park The Coral Lagoon - world's largest living coral reef Robotanical Gardens 3,000 seat amphitheatre	Aquarium and Rainforest Exhibit Harry's Island Pele football stadium Caldera Theatre, 7,500 pax
Hotels	6 hotels, with 1,830 rooms	4 hotels, with 1,800 rooms	10 hotels, with 2,100 rooms

Source: Company reports and ChannelNewsAsia

Other Companies Recommended in This Report (all prices in this report as of market close on 08 December 2006)
Genting (GENT.KL/M\$29.25/Overweight), Resorts World (RWBW.KL/M\$13.30/Overweight)

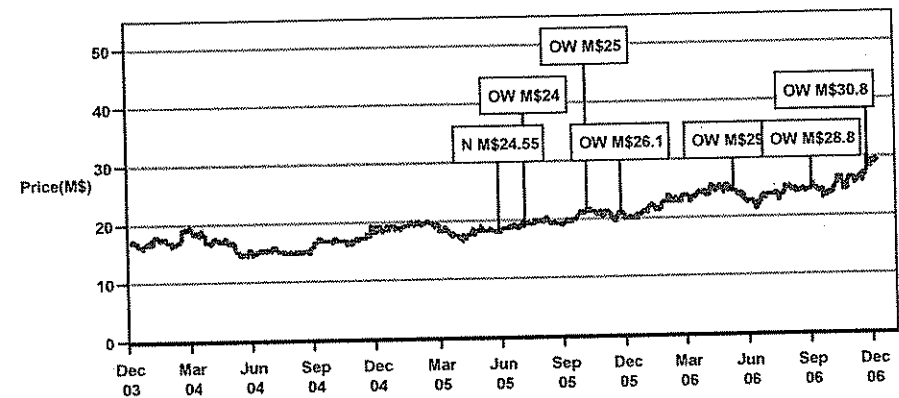
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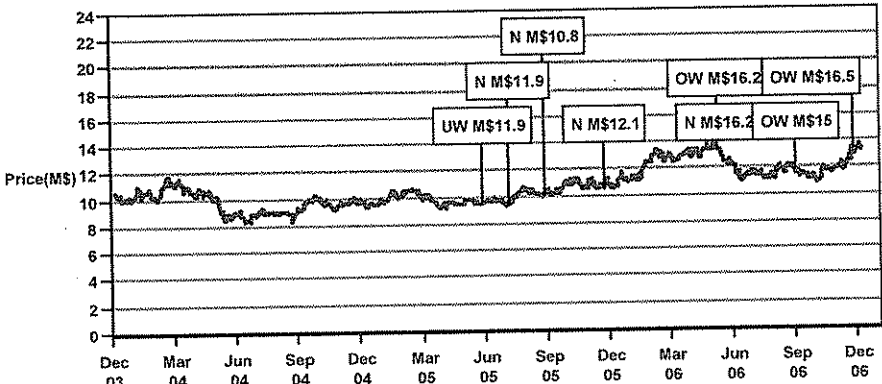
Genting (GENT.KL) Price Chart



Date	Rating	Share Price (M\$)	Price Target (M\$)
30-May-05	N	18.20	24.55
06-Jul-05	OW	19.10	24.00

Source: Reuters and JPMorgan; price data adjusted for stock splits and dividends.
This chart shows JPMorgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period. As of Aug. 30, 2002, the firm discontinued price targets in all markets where they were used. They were reinstated at JPMSI as of May 19th, 2003, for Focus List (FL) and selected Latin stocks. For non-JPMSI covered stocks, price targets are required for regional FL stocks and may be set for other stocks at analysts' discretion.
JPMorgan ratings: OW = Overweight, N = Neutral, UW = Underweight.

Resorts World (RWBW.KL) Price Chart



Date	Rating	Share Price (M\$)	Price Target (M\$)
30-May-05	UW	9.50	11.90
06-Jul-05	N	9.40	11.90
10-May-06	OW	13.50	16.20

Source: Reuters and JPMorgan; price data adjusted for stock splits and dividends.
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Revised December 11, 2006.

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Genting - Summary of Financials

Profit and Loss statement						Cash flow statement					
MYR in millions, year-end Dec	FY04A	FY05A	FY06E	FY07E	FY08E	MYR in millions, year-end Dec	FY04A	FY05A	FY06E	FY07E	FY08E
Revenues	4,647	5,454	6,396	6,999	7,379	EBIT	1,608	2,405	2,511	2,819	3,076
% change Y/Y	9.7	17.4	17.3	9.4	5.4	Depreciation & amortisation	374	410	428	482	477
Gross Margin (%)	42.6	51.6	45.9	47.6	48.2	Change in working capital	-12	-110	41	-23	-20
EBITDA	1,982	2,815	2,939	3,301	3,553	Taxes	-344	-534	-522	-696	-786
% change Y/Y	4.5	42.0	4.4	12.3	7.6	Cash flow from operations	1,686	2,019	2,394	2,586	2,827
EBITDA Margin (%)	42.6	51.6	45.9	47.6	48.2	Capex	-625	-591	-400	-400	-400
EBIT	1,608	2,405	2,511	2,819	3,076	Disposal/ (purchase)	0	-899	-608	0	0
% change Y/Y	3.6	49.6	4.4	12.3	9.1	Net Interest	15	-11	-64	4	79
EBIT Margin (%)	34.6	44.1	39.2	40.6	41.7	Free cash flow	-609	1,428	1,994	2,186	2,427
Net Interest	15	-11	-64	4	79	Debt raised/ (repaid)	0	-832	2,196	0	-1,100
Earnings before tax	1,659	2,439	2,486	2,827	3,159	Equity raised/ (repaid)	0	0	0	0	0
% change Y/Y	6.2	47.1	1.9	13.7	11.8	Dividends paid	-122	-152	-150	-149	-159
Tax	(344)	(628)	(522)	(696)	(786)	Other	0	-734	0	0	0
as % of EBT	20.7	25.7	21.0	24.6	24.9	Beginning cash	4,385	5,913	6,079	7,922	9,959
Net Income (Reported)	809	1,247	1,323	1,418	1,544	Ending cash	5,913	6,079	7,922	9,959	12,227
% change Y/Y	13.3	54.2	6.1	7.7	8.9	Gross DPS - M\$	0.240	0.290	0.270	0.290	0.310
Shares Outstanding	704	704	704	704	704						
EPS (reported) - M\$	1.149	1.771	1.878	2.013	2.192						
% change Y/Y	13.3	54.2	6.1	7.7	8.9						
Balance sheet						Ratio Analysis					
MYR in millions, year-end Dec	FY04A	FY05A	FY06E	FY07E	FY08E	%, year-end Dec	FY04A	FY05A	FY06E	FY07E	FY08E
Cash and cash equivalents	5,913	6,079	7,922	9,959	12,227	EBITDA margin	42.6	51.6	45.9	47.6	48.2
Accounts receivable	554	661	775	848	895	Operating margin	42.6	51.6	45.9	47.6	48.2
Inventories	310	349	445	471	492	Net profit margin	17.4	22.9	20.7	20.3	20.9
Others	106	113	113	113	113	SG&A/sales	n.a.	n.a.	n.a.	n.a.	n.a.
Current assets	6,883	7,202	9,256	11,384	13,725	Sales per share growth	9.7	17.4	17.3	9.4	5.4
LT investments	3,164	4,348	4,387	4,391	4,395	Sales growth	9.7	17.4	17.3	9.4	5.4
Net fixed assets	6,550	6,941	7,521	7,438	7,361	Net profit growth	13.3	54.2	6.1	7.7	8.9
Total assets	16,597	18,491	21,164	23,213	25,481	EPS growth	13.3	54.2	6.1	7.7	8.9
Liabilities						Interest coverage (x)	129.9	-245.4	-45.9	841.1	44.8
Payables	877	913	1,164	1,233	1,286	Net debt to total capital (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ST loans	784	417	268	268	268	Net debt to equity (x)	n.a.	n.a.	n.a.	n.a.	n.a.
Others	95	164	164	164	164	Sales/assets (x)	0.3	0.3	0.3	0.3	0.3
Total current liabilities	1,755	1,494	1,746	1,814	1,868	Assets/equity (x)	2.1	2.1	2.1	2.0	2.0
Long term debt	2,909	2,456	4,801	4,801	3,701	ROE	10.3	13.9	13.0	12.4	12.4
Other liabilities	4,064	5,539	6,180	6,886	7,668	ROCE	13.9	20.3	19.2	19.7	19.5
Total liabilities	8,728	9,489	10,382	11,156	11,991						
Shareholders' equity	7,869	9,002	10,174	11,450	12,882						
BVPS - M\$	11.171	12.781	14.445	16.256	18.289						

Source: Company, JPMorgan estimates

Cancellation of Charity Casinos Cost the Ontario Lottery Corp. \$50 Million in Compensation Payout

May 14, 1999 -- According to the Toronto Star, government documents show that the Ontario government did not have to pay any of the \$50 million it gave in compensation after killing 44 charity casinos last year.

The newspaper said that payouts, to reimburse eight multinational casino operators for development costs and some lost revenues, were not required, according to the government's own bidding documents, issued on Feb. 18, 1997.

"The Government of Ontario is not liable to . . . reimburse or compensate proponents, or persons connected with the proponent, under any circumstances, including the rejection of any or all proposals, the cancellation of the request for proposal, the cancellation of the (charity casino) project itself, or the failure of the Gaming Control Commission, or the province to negotiate a contract with a proponent," the documents state.

Some of the multinational companies have high-profile Toronto Tories, Tory donors, former Tory political aides, and former government bureaucrats among their ranks.

One corporation is led by the Latner family of Toronto, which donated \$110,000 to the provincial Tories between 1995 and 1997.

Despite several calls this week, Management Board chair Chris Hodgson, who oversees gaming issues, has refused to respond to questions about why the compensation was paid.

Spokespersons for the eight corporations receiving the payouts have been unavailable for comment over the past week as well.

Some of the companies were paid between \$8 million and \$10 million in compensation, some a little less, sources say.

Premier Mike Harris defended the payouts yesterday, saying the casino companies had spent money in development costs.

Harris said the \$50 million was not taxpayers' money, but came from the Ontario Casino Corp., a crown company.

In fact, the crown corporation that paid out the money was the Ontario Lottery Corp., and the \$50 million payout will reduce the annual amount in lottery winnings that the corporation contributes to provincial coffers.

Lottery spokesperson Jim Cronin also defended the payout yesterday. Cronin said he was aware of the provision in the request for proposal (RFP) initiating the bidding process which would have let the government off the hook.

`` Understanding the period of time between the RFP being issued and the program being cancelled, costs had been incurred," Cronin said. `` We understood that and we committed we would cover those reasonable costs."

Cronin said the Ontario Lottery Corp. is still `` sorting out details' ' of some of the settlements.

At the time of last year's cancellation, the eight casino corporations were still working out details of their deals and none had signed contracts with the government, Cronin said.

Originally announced by Finance Minister Ernie Eves in 1996, the charity casinos were to replace a network of roving Monte Carlo Charity Casinos operated by small companies.

The Monte Carlo operators, whose business was expropriated by the province to make way for the `` charity casinos" have been refused compensation and are suing the province.

The permanent charity casinos were to spring up across Ontario, in cities like Toronto, London, Brantford, North Bay, Ottawa, Hamilton and Kitchener.

A bidding contest was held in 1997. Eight corporations were chosen as operators on Sept. 26, 1997. Each corporation was allotted between five and seven casino sites.

The corporations set about developing the casinos, hiring architects, consultants and spending money to acquire buildings and land.

Among the high-profile Tories involved with some of the corporations are Senators Trevor Eyton and Con Di Nino, and former federal cabinet minister Otto Jelinek. Among the former Ontario bureaucrats are former Ontario Casino Corp. president Domenic Alfieri.

Some former Tory political aides were also working for casino corporations. Among them: Paul Burns (former aide to Consumer Minister David Tsubouchi) and Bill Noble (former aide to Tory MPP Jim Flaherty and brother of high-profile Tory lobbyist Leslie Noble).

Public opinion was steadfastly against the concept. A Star story three months before the cancellation showed that 39 of the 44 proposed casinos were opposed by the communities chosen to host them.

Nine months after the eight corporations were selected, Hodgson cancelled plans for the casinos, saying in a news release on June 26, 1998 his decision was based on low public support for the concept.

SOURCE: Toronto Star

Court finds Detroit casino law is flawed

Indian tribe wins; shutdowns unlikely

By: Tina Lam
Free Press Staff Writer

Posted: 1/18/02

Michigan's smallest Indian tribe asked the state Friday to shut down all three Detroit casinos, hours after winning a ruling from a federal appeals court that says Detroit's casino licenses are "illegitimate."

"The federal court has plainly said they are illegal," said Conly Schulte, an attorney for the Lac Vieux Desert Band of Lake Superior Chippewa Indians. "We believe the board has a duty to revoke their licenses and shut the doors."

The director of the Michigan Gaming Control Board said Friday he would discuss the ruling and the tribe's request with lawyers next week, but had no plans to take immediate action.

"We're not going to do anything until we have carefully considered the ruling and what, if anything, it requires us to do," said Executive Director Nelson Westrin.

Morley Witus, a lawyer for the City of Detroit, said the city hasn't decided what it will do and is studying the decision and its options. He said he does not expect the casinos to close.

The 6th U.S. Circuit Court of Appeals in Cincinnati issued a 2-1 decision Friday that said the city's casino ordinance is unconstitutional because it granted preferences for licenses to two groups of owners.

"With the preference, the ordinance is fatally unfair and the casino licenses Detroit has issued to date are illegitimate," the judges said. The appellate court has now reversed two decisions by U.S. District Judge Robert Holmes Bell in Grand Rapids. In its latest ruling, the appeals court sent the case back to Bell, but didn't recommend what he should do.

The city has 14 days to ask the full court of appeals to reconsider the ruling and about three months to ask the U.S. Supreme Court to hear the case, Witus said.

He said it's too early to decide. "We haven't had time to digest this," Witus said.

Robert Sedler, a professor of constitutional law at Wayne State University, said it's rare for the full appeals court to rehear a case. Although the case presents an interesting First

Amendment issue, it's also unlikely the Supreme Court would hear the case because it applies only to Detroit, he said.

Sedler said the case might be settled if the casinos agree to give the Lac Vieux a share of their profits.

Bell did not return a call Friday seeking comment on the case or when he might hold a hearing. That could take months.

Detroit Mayor Kwame Kilpatrick learned of the ruling as he walked to a news conference preceding his speech before the Economic Club of Detroit at Cobo Hall.

He said his initial reaction was that the city must decide whether to join the casinos and appeal the ruling, and that rebidding the casinos "is a last resort right now."

Later in the day, Kilpatrick's spokesman, Bob Berg, said the mayor would have nothing more to say until the city has a chance to look at the ruling more thoroughly.

The Lac Vieux Desert Band first challenged the casino preferences in federal court nearly five years ago. The court agreed Friday that the tribe's free-speech rights were violated because government cannot reward particular groups for their political activity. That's effectively what Detroit's preference did for the two casino groups that helped get the state casino law passed in 1996.

"My face hurts from smiling," Jim Williams, vice-chairman of the tribe, said Friday. "We were hoping to get a fair shake — that's all we ever wanted. We wanted the opportunity to participate in ventures out there that could help our tribe grow."

The tribe didn't apply for a casino license, but would have without the preferences, Williams said.

The 487-member tribe was one of several that proposed an Indian casino near the Fox Theatre in Detroit in the mid-1990s. That casino won federal approval, but Gov. John Engler nixed it.

Casino owner Don Barden also challenged the preferences in the city ordinance, but only after he had competed for a license and lost. A U.S. district judge in Detroit ruled that Barden had waived his right to sue during the bidding process. Barden has appealed and the case is pending.

Barden said he felt vindicated by the ruling. "This ... upholds my position from all along," he said at the Charity Preview for the North American International Auto Show.

Detroit City Councilwoman Sheila Cockrel said, "I think it's something we are going to have to take a very close look at. We need to look to see if there are any actions that can be taken to rectify whatever the illegal issue is that has been raised by the court."

Cockrel said the court ruling has “huge implications” for the city’s budget, which faces a deficit of up to \$75 million or perhaps more.

Higher-than-expected casino revenues are one of the few revenue sources that have kept the city afloat financially.

The three casinos employ more than 8,000 people. Although official numbers haven’t been released for December, the three casinos took in about \$1 billion last year, giving the city just under \$100 million.

Council President Maryann Mahaffey said she just learned of the casino mess Friday morning, and has asked for a copy of the ruling.

Said Councilwoman Alberta Tinsley-Talabi: “It has serious implications, very serious. We need to be prepared and we need to speak with one voice, that’s for certain.”

The tribe sued Greektown and MotorCity casinos, but the judges’ ruling Friday said the entire law was unconstitutional, meaning all three could be affected.

The casinos were tight-lipped about the ruling and their next course of action.

“Our attorneys are reviewing the opinion and determining what it means,” said Roger Martin, spokesman for Greektown Casino. The casino’s 2,500 employees officially received word of the ruling late Friday afternoon.

“MotorCity Casino followed the procedures set forth by the State of Michigan and City of Detroit and was selected to develop a casino facility,” said John Marz, spokesman for Mandalay Resort Group, which owns a 53.5-percent interest in MotorCity.

MGM Grand Detroit officials said they do not believe Friday’s ruling will affect the casino’s ability to continue operations in Detroit.

“MGM Mirage did not receive a preference or benefit in any way from the preference provisions, and is not a party to the litigation,” the company said in a statement.

Contact TINA LAM at 313-223-4407 or lam@freepress.com. Staff writers Lorene Yue, James G. Hill and M.L. Elrick contributed to this report.

This story was reprinted as it appeared in the Jan. 12 edition of the Detroit Free Press.

Macau casino concession rigged, suit alleges

Venetian president, board assistant accused of misusing insider information

BY MATT WARD

A Macau company filed a federal lawsuit in Las Vegas Monday against Las Vegas Sands, Venetian Venture Development, Venetian President Bill Weidner and LVS board assistant David Friedman. The suit alleges Macau officials rigged the 2001 bidding process in favor of Sands and that the latter dropped a Taiwan bank from the deal to appease Communist officials.

Those officials are accused of thwarting the efforts of a Taiwanese bank to take ownership of Asian American Entertainment Corp. (AAECL), which partnered with Las Vegas Sands in 2001 to pursue a Macau casino concession. AAECL is seeking monetary damages from Sands, and alleges the Las Vegas operator received special treatment by Macau officials involved in the casino license-bidding process.

The suit charges that Weidner and Friedman misappropriated internal AAECL information, delivered that information to a business competitor and eventually terminated Sands' relationship with AAECL at the behest of Macau's government.

According to the suit, a letter of agreement to pursue a joint venture was signed by AAECL Chairman Dr. Shi Sheng Hao and Weidner on Oct. 18, 2001.

"The Letter Agreement provided that AAECL would work to obtain a gaming license in Macau, and thereafter, AAECL and Venetian would jointly operate a casino, hotel, and other related facilities. AAECL, as the developer of the proposed Macau Venetian resort, was to obtain a gaming license from the Macau government," AAECL's complaint reads.

According to the agreement, AAECL agreed to purchase a license to use the Venetian brand on any Macau casino, reimbursing LVS to the tune of 2 percent of the future casino's gross annual revenue and 10 percent of its cash flow. The letter also provided that "AAECL would grant Venetian the option to purchase up to 27.5 percent of its stock upon the execution of these agreements, an amount that was explicitly agreed upon by Sheldon G. Adelson."

Also according to the complaint, AAECL had exclusive negotiating rights with Sands, which provided that neither company could negotiate with a competitive bidder for one of Macau's gaming licenses. The suit alleges that this agreement was terminated abruptly Feb. 6, 2002.

By then, AAECL had been before Macau's Public Tender Committee of Gaming Concessions (PTC), which analyzed and approved all bids, a few times. At its first appearance, in December 2001, AAECL revealed a plan to spend \$1.1 billion to build the joint project with Sands. An additional \$700 million was pledged toward non-gaming infrastructure-related projects in Macau. It was also revealed that China Development Industrial Bank of Taiwan would be backing the project.

That same month, according to the complaint, Friedman and Weidner became directors of AAECL, "assuming a fiduciary position" with the company.

More than 20 companies provided Macau's tender committee with proposals seeking one of three gaming licenses. The PTC killed three bids after a preliminary review and asked the remaining bidders to prepare more extensive ones. Around Jan. 4, 2002, AAECL presented a more detailed plan, this time accompanied by Weidner and Michael Jen, China Development Industrial's executive vice president. According to the suit, the group told PTC members about their plans to first build a temporary casino, operate it while the Venetian Macau was under construction, as well as discussing CDIB's financial backing.

AAECL, along with eight other companies, were invited back by for a third round of PTC presentations. AAECL made another presentation on Jan. 15.

It was at this time that Adelson agreed to extend his agreement with AAECL another month, according to court records.

On Jan. 22, PTC members announced a nine-day period in which competing companies could merge, thereby ensuring more bidders would profit from the concessions. Sands had not yet purchased any part of AAECL and thus could not restructure. On Jan. 25, 2002, according to the suit, Weidner sent a fax to Hao, reiterating Sands' commitment, but also adding that the company, in its guise as Venetian Venture Development, needed one share of AAECL in order to take advantage of the nine-day restructuring period. AAECL refused, as selling a share to LVS was not part of the agreement.

"The PTC's announcement that tenderers could merge, thereby combining their proposals, set off a flurry of activity," the suit states. "Venetian Venture Development, on information and belief, contacted a number of Las Vegas casinos which had themselves submitted tenders to the PTC."

On Jan. 30, AAECL started discussions with Galaxy Entertainment Group for purposes of merging, revealing as much to Sands officials. But the two companies could not come to an agreement and, on Jan. 31, the deadline for restructuring submissions expired.

On Jan. 31, "while AAECL and Galaxy were negotiating a deal to merge, two of AAECL's board members, defendants Weidner and Friedman, were engaging in separate, secret negotiations against AAECL's interests, seeking to merge Venetian Venture Development and Galaxy, and to exclude AAECL from the merger," the suit alleges.

On Feb. 1, 2002, Galaxy and Sands submitted documents to the PTC, purporting to show that Venetian Venture had acquired part of Galaxy, something the company could not say about AAECL, the suit alleges.

The suit goes on to accuse Macau officials, concerned that a Taiwanese bank would eventually control AAECL, of asking Sands to drop AAECL as a partner. "On Feb. 5, 2002, representatives of AAECL contacted defendant Weidner, who admitted that he had spoken with a senior governmental official in Macau, who allegedly wanted Venetian Venture Development to abandon AAECL's tender submission entirely and merge with another group."

Also during this conversation, according to the lawsuit, Weidner twice refused to terminate the letter of agreement with AAECL. The next day a fax to Hao voided the agreement, and announced Weidner and Friedman's resignation as directors of AAECL.

The suit states, "this method of resignation with respect to defendant Weidner was not in accordance with Macau (Special Administrative Region) law. As of the date of the commencement of this action, defendant Weidner has not taken any appropriate legal steps to resign as a director of AAECL."

The morning of Feb. 8, the day PTC members were to name the winning bidders, an emergency meeting was held. The fax from Friedman was used to show that LVS had severed ties with AAECL. "Plainly, the PTC desired that the entity affiliated with the Venetian be awarded a gaming license and it allowed Venetian to join Galaxy's tender submission," the suit reads.

Later on Feb. 8, Galaxy, although it had not been among the nine companies allowed to resubmit bids after Jan. 4, won a gaming license. Galaxy had been given leave to offer a new bid, one that AAECL claims bore a remarkable resemblance to its own, the details of which would have been known to Weidner and Friedman.

Adelson was allowed to begin construction on a temporary casino, the Sands Macao. AAECL appealed and asked, as a remedy, to be allowed to buy a 50 percent stake in Galaxy and "be permitted to reap the benefits and profits of its plans for development, which were misappropriated by the Venetian-Galaxy Group."

The lawsuit alleges that Hao and AAECL received assurances, in person and via letter, from Edmund Ho, Macau's chief executive, that it would receive a subconcession. None was forthcoming.

AAECL is seeking extensive damages from Sands, which also later dissolved its relationship with Galaxy.

Attorneys representing both parties could not be reached for comment.

TOO MUCH OFFICIAL CONTROL IN DESIGN OF IRs: CASINO MOGUL

(14 May 05, Business Times)

He says excessive official direction interferes with the creative process
By Vikram Khanna

[Singapore] Too much direction and control by officials managing the bidding process for Singapore's integrated resorts (IRs) is counter-productive and could compromise the quality of the final product, says Las Vegas casino mogul Steve Wynn.

Mr Wynn, creator of some of the best-known IRs in Las Vegas, has praise for Singapore's fundamental strengths of good governance, safety, a world-class airport and laissez-faire economic policies - as well as the choice of the Marina Bayfront site for an IR.

But he is critical of what he sees as micro-management by 'bureaucrats' on several issues leading up to the submission of bids, particularly design-related issues. 'There's an awful lot of control and direction in the documents we've received which, frankly speaking, is unsophisticated,' he told BT in an exclusive interview in Las Vegas.

'It's control and direction given by people who've never done this before. I don't think it's appropriate to tell someone: Give us an attraction that's irresistible, that will reach into India and China - but we'll tell you how to design it.'

According to Mr Wynn, for instance, the requirement to submit line drawings by Sept 30 won't serve a useful purpose. 'By definition, anything done by Sept 30 will be a partially finished product,' he said. 'Everybody will make big promises and have fancy drawings. But you can't tell from a drawing or a rendering what space moves the human spirit. You have to be in it to understand.'

Mr Wynn's resorts in Las Vegas include The Mirage, Treasure Island, The Bellagio and, most recently, the US\$2.7 billion Wynn Las Vegas - billed as the world's most expensive and up-scale resort. He also has a gaming licence in Macau, where he is constructing a

resort due for completion next year. His company, Wynn Resorts is among the 12 remaining bidders for one of the proposed IRs in Singapore.

Mr Wynn told BT that Singapore government officials also want to know 'exactly what the show (in the resort) will be'. But it took more than three years to create shows such as the sellout O show, currently running at The Bellagio, and Le Reve, showing at Wynn Las Vegas, he said. The creation of such shows involves intricate choreography, music and lighting effects and is often an organic process over a period of time and perfected after audience feedback 'If I'd ever tried to describe the O show on a piece of paper to someone, they'd have laughed at me,' he said.

Rather than trying to specify detailed design requirements in documents, Mr Wynn suggested that Singapore officials visit Las Vegas and see the work done in the resorts there. 'Infer from what you see what you like,' he said. 'Don't issue thunderbolts of wisdom from the top of Mount Olympus. You're talking about the people of the world and what makes them go. That's the ballpark we play in. Running the government is the ballpark they play in. Those are two different games. Both sides have to be open and flexible. 'Telling us to go get a world-class architect with no specific name is not the way to go about it. On the other hand, telling us show us your work' and then asking us how to create something in Singapore as best we know and in a way that's not repugnant or antithetical to the sensibilities of the city is a perfectly valid instruction.

'And if someone does something that's offensive, you reject it, plain and simple. But you don't tell an expert how to do an expert's job. You ask.'

Mr Wynn said he accepts the rules governing the bidding for IRs. But according to him: 'The question is, do the rules interfere with the creative process? The question is, can we keep the promise to Singapore? There's a very definite agenda on the table here: We want to change Singapore's tourism profile from 5 per cent of GDP to closer to 15. Ultimately, this is not between me and the government, it's between me and the public'.

Singapore's Bid Goes to Las Vegas Sands

By Margo McCall -- Tradeshow Week, 6/12/2006

Las Vegas Sands didn't have government ties or even a partner, but it still ran away with the winning bid to develop Singapore's first casino resort.

What the Las Vegas-based casino company did have was plans for one of the most expensive resorts ever built, and a proposal that calls for more meeting and exhibition space than any of the city-state's existing venues.

Singapore is already the second-most popular destination for international meetings, according to the Intl. Congress & Convention Assn. But even so, the amount of exhibit space offered by its three existing venues can't quite measure up to the scale of Las Vegas Sands' proposed Marina Bay resort.

Singapore Expo features 60,000 square meters (645,835 square feet) of exhibit space. Suntec Singapore Intl. Convention & Exhibition Center has 12,000 sq. m. (129,167 sq. ft.) of space, and Singapore Indoor Stadium nearly 3,000 sq. m. (32,292 sq. ft.)

By comparison, Las Vegas Sands plans 111,484 sq. m. (1.2 million sq. ft.) of convention and meeting space, in addition to 92,903 sq. m. (1 million sq. ft.) of retail, 2,500 hotel rooms, three entertainment venues, a premium player casino and the area's first museum. The \$3.6 billion project calls for a 2009 opening.

During the selection process, LVS emphasized its expertise in Asia as well as "a global book of business in the MICE (meetings, incentives, conventions and exhibitions) industry" as advantages that would help reinvigorate Singapore as an international hub for meetings and conventions.

The company has operated the Sands Macau since May 2004 and is building the Venetian Macau Casino Resort, which will provide 111,484 sq. m. of exhibit space when it opens in late 2007.

In Las Vegas, LVS also operates the Sands Expo & Convention Center and the adjacent Venetian Resort Hotel Casino, which together offer more than 1.1 million sq. ft. of exhibit space.

After the LVS bid was selected, COO William Weider said in a statement that the company's relationships in the MICE area will assure "a steady and predictable flow of visitors to Singapore."

A dozen international hotel development companies were initially invited to submit proposals to build two planned casinos in Singapore. Among them was LVS rival Wynn Resorts, which last year opened the upscale Wynn Las Vegas, and is constructing a 16-acre casino resort set to open late this year in Macau.

Singapore eventually selected four finalists. MGM Mirage teamed up with CapitaLand on a Singapore proposal that included a permanent Cirque du Soleil show.

Harrah's Entertainment, Keppel Land and Star formed a consortium to build Caesars Singapore, which would have featured a theme park surrounding iPort, the 16-story, 1 million sq. ft. immersive entertainment experience to be produced by director James Cameron. The Centre Pompidou gallery, architect Daniel Libeskind, Anschutz Entertainment Group, venue manager SMG, Suntec Singapore Intl. Convention & Exhibition Centre, retailers Taubman Asia and Gordon Group Holdings, and retail designer Peter Marino were also part of the Harrah's team.

Genting Intl. and Star Cruises, meanwhile, made a \$3.1 billion bid for the Singapore Entertainment & Events Destination, which would have included more than 5,000 hotel rooms with a 2010 opening date. Their proposal called for a hall to seat 5,500 and a grand ballroom for 6,000. Developers didn't disclose the amount of exhibit space planned.

LVS became the only solo bidder after its partner, hotel developer City Developments, dropped out last January. Because of that, and its lack of government ties, its proposal was viewed by observers as a dark horse.

But the also-rans for Singapore's first casino might have another chance once the bidding process begins for a second resort, one expected to be more of a family destination.

December 12, 2006]

GENTING CLINCHES SENTOSA CASINO RESORT PROJECT

(Bernama The Malaysian National News Agency Via Thomson Dialog NewsEdge) from BERNAMA, The Malaysian National News Agency SINGAPORE, Dec 8 (Bernama) -- Malaysia's Genting International and Star Cruises consortium has won the bid to build Singapore's second casino resort, beating intense competition from two other contenders for the project on the island resort of Sentosa. In the weeks leading to today's announcement, Genting's proposal for a S\$5.2 billion (S\$1=RM2.28) Resorts World at Sentosa, won the hearts of the Singapore selection committee who saw it as having the best offering among the bids.

Deputy Prime Minister Prof S Jayakumar who announced the winner at a news conference here today said that Genting has the most compelling overall proposal for the integrated resort (IR).

"Genting International and Star Cruises submitted the most compelling proposal overall that best meets our economic and tourism objectives. In particular, the proposal reflects our visions for the Sentosa IR as a large-scale family resort with its host of world class family leisure attractions and other strong offerings," Jayakumar said.

Two other bidders are Kerzner International-CapitaLand with its futuristic Atlantis Sentosa and a total investment of S\$5.28 billion; and, Eighth Wonder, which surprised many with the biggest investment of S\$5.6 billion for its Harry's Island proposal.

Jayakumar said that all three bidders had submitted a very strong bid, reflecting a high commitment to the project.

The Resorts World at Sentosa, which is expected to be completed by end-2009, comprised four attractions and each will be developed by a global brand name and set to be "must-visit" venues.

Among them is the Quest Marine Life Park, the world's largest oceanarium that will be home to as many as 700,000 aquatic animals as well as a lagoon that allows visitors to

snorkel and dive with whale sharks, the largest fish in the world

Other attractions include the Equarius Water Park, which is nestled under the natural canopy of Sentosa's lush natural forest; a Maritime Xperiential Museum; and, the Universal Studios Singapore, a theme park that draws on Universal's rich Hollywood heritage

The Universal Studios Singapore, a tie-up between Genting and Universal Studio Parks and Resorts, comprises 22 attractions including movie-based roller-coaster rides

"We are looking for a family resort. The leisure visitors constitutes 69 percent of our tourist arrivals... it is a very important segment of the market," Trade and Industry Minister Lim Hng Kiang, who was also at the news conference, said

"We want this to be a key anchor attraction for Sentosa. We want to draw a large number of new and repeat number of visitors to Singapore. The large number of attractions at the Universal Studio Singapore make it a sizeable theme park comparable to Universal Studios Orlando and larger than Universal Studios Hollywood," said Lim

There will also be six hotels, each designed to cater to specific market niche, including the 460-room Hotel Michael designed by celebrated American architect Michael Graves

Resorts World at Sentosa will be developed by Infinity@The Bay Pte Ltd

a joint venture company between Genting International and Star Cruises. It will also operate the 49-hectare resort on a 30-year concession

Genting is expected to generate about S\$2.7 billion or about 0.8 percent to Singapore's annual gross domestic product and about 30,000 jobs throughout the economy by 2015

In May, the government awarded the tender for the first casino resort on Marina Bay, to US gaming giant, Las Vegas Sands Corp with investment of over S\$5 billion

The Marina Bay Sands is geared towards the business travel, meeting, inventive, conference and exhibition (BTMICE) segment while the one on Sentosa Island is more for family-oriented leisure entertainment.

Kansas Lottery Gaming Facility Review Board

STAFF AGENDA MEMORANDUM

DATE OF MEETING: February 20, 2008

AGENDA ITEM: Discussion, consideration and possible action on retaining Candace Evert and Richard Wells as Review Board consultants.

PRESENTER: Stephen Martino

ISSUE SUMMARY: During the December 20, 2007, meeting, the Lottery Gaming Facility Review Board commissioned KRGC staff to identify experts to consult the board in various matters in order to make an informed decision consistent with its charge under SB 66, the Kansas Expanded Lottery Act.

At the January 28 board meeting, staff received approval to contract, subject to state law and regulations, with William Eadington, Ph.D., to be a board consultant. Furthermore, staff indicated a desire to use Professor Eadington's knowledge and expertise in gaming consulting to educate and improve the identification of other members of the consulting team.

Candace Evert and Richard Wells have submitted a joint proposal to conduct the gaming zone market potential study and the gaming revenue and economic impact analysis of each management proposal. At the completion of the process, two consultant teams will have worked in both of these areas, which will provide redundancy and an ability to peer evaluate widely divergent conclusions. Staff is recommending that these tasks be completed as well by William Cummings (a separate staff memorandum on them is contained in this packet.)

Ms. Evert is an experienced consultant within the gaming industry. She has been doing consulting work in the gaming field since 1985, having worked in more than a dozen U. S. jurisdictions, as well as Canada, New Zealand and Israel (see attached for a full list of jurisdictions). In addition to this, Ms. Evert has extensive experience in Indian gaming.

Mr. Wells has 15 years experience as a senior executive in the casino-hotel industry. He also has performed player count services for more than 80 casinos nationwide. In addition to this, he has performed gaming market studies, project feasibility studies, and financial due diligence across the country.

Ms. Evert and Mr. Wells will collaborate to provide reports, testimony and other support as necessary to the board in assessing the gaming zone market potential and the gaming revenue and economic impact of the proposals.

BOARD ACTION REQUIRED/REQUESTED: Authorize the executive director to contract, subject to state law and regulations, Candace Evert and Richard Wells as Review Board consultants.

February 11, 2008

Mr. Stephen Martino
Executive Director
Kansas Racing and Gaming Commission
700 SW Harrison, Suite 420
Topeka, Kansas 66603

Dear Mr. Martino:

Thank you for the opportunity to discuss how Meridian Business Advisors (MBA) and Wells Gaming Research (WGR), the Consultants, could assist the Kansas Racing and Gaming Commission in the casino management selection process. Specifically, we were asked to address two areas:

1. Gaming Zone Market Potential: Market analysis for each of the zones in Kansas authorized for gaming. This would involve estimating potential gross gaming revenues in each of the zones, likely employment impacts, and the potential for revenue generation for the State.
2. Gaming Revenue and Economic Impact Analysis of Proposals: Evaluation of the specific proposals in terms of a number of key characteristics, such as:
 - a. the feasibility of the overall proposal
 - b. the reasonability of the economic forecasts
 - c. the reasonability of operational projections, such as departmental revenues, expenses, and contributions to income
 - d. the reasonability of the proposal's estimates of economic and fiscal impacts at the local, regional, and state level

We present below our methodologies, scope of work, and professional fees for completion of the components of the analysis.

Task 1: Determine Market Potential for Each Casino/Racino Zone

The Consultants will use two methodologies to estimate the gross gaming revenue for each casino/racino location.¹ The first methodology involves the development of a gravity model for each location and for each proposal submitted in that location. The model will estimate the number of daily and annual visitors to each location and visitors' average spend per day. Annual visitors multiplied by spend per day results in an annual gross gaming revenue estimate. WGR will take the lead in this analysis and proposes the following scope of work:

¹Please note that we will address employment impacts in Task 2.

Gravity Model Methodology:

Compile population and demographic data for the zones

1. Update information on existing and proposed competing casinos within the region, primarily those located Oklahoma, Kansas, and Missouri.
2. Visit the proposed casino sites in Kansas and some of the competing casinos in Oklahoma, Kansas, and Missouri.
3. Obtain and review proposals submitted for each casino or racino project. Amenities offered by each gaming applicant impact the number of potential visitors attracted and must be considered in light of competition in the area. Amenities include the scope of gaming, entertainment, hotel, restaurants and other amenities that will be included in each project. Depending on the location and amenities offered by each applicant within the State's gaming zones, gravity models may be developed for each proposal.
4. Build custom gravity models for each of the four Kansas Gaming Zones, including Cherokee County, Sumner County, Wyandotte County, and Ford County.
5. Calibrate the models to include as much actual data as possible.
6. Run appropriate revenue projection and annual visitors scenarios for each gaming zone. Scenarios will include high, low, and mid-case estimates to project a range of possible gaming revenues, rather than a single point estimate.
7. Prepare a report to include the revenue projections and relevant information about the competition, markets, and methodology. Gaming revenue tax to the State will be estimated.

Aggregate Personal Income Methodology:

The second methodology, which will be used in conjunction with the gravity model findings, will examine the gross gaming revenue market potential of a build-out, or mature market, for the Kansas jurisdictions. It is based on computation of gaming win as a percent of aggregate personal income within easy reach of the casino/racino and is based on the experience of other similar U.S. gaming jurisdictions. Comparative data indicate that the market potential under the best of circumstances is approximately 1.0% of aggregate personal income; this is the amount that would be expended on gaming by residents within Metropolitan Statistical Areas (MSA), approximately a 50-mile radius of the casinos. As above, the revenue to the State from gaming taxes will be calculated. MBA will take the lead in this analysis.

A report summarizing the findings, assumptions and methodology contained in the analysis will be prepared and combined with those of the gravity model methodology.

Employing the findings on the market potential derived by the two methodologies described above, the Consultants will review the applicants' estimate of annual demand, gross gaming revenue, and average per capita wager. We will document what estimates do not appear reasonable and develop a list of questions/clarifications that the Review Board can pose to applicants during their presentations or that they can request to be addressed prior to the presentations.

For each gaming zone, we will prepare a summary table comparing the applicants' estimates of pertinent market and gaming revenue estimates to that of the Consultants. An example of a summary table follows:

Comparison of Proposers' Gaming Revenue v. the Consultants

Applicants' Estimates	Proposer A	Proposer B	Proposer C	Proposer D
GGR Estimate Year 1	\$78,000,000	\$80,300,000	\$100,740,000	\$76,540,500
GGR Estimate Year 2	\$80,000,000	\$82,308,000	\$103,259,000	\$85,045,000
GGR Estimate Year 3	\$82,500,000	\$84,365,000	\$105,839,000	\$86,745,956
GGR Estimate Year 4	\$85,000,000	\$86,474,000	\$108,486,000	\$88,481,000
GGR Estimate Year 5	\$87,000,000	\$88,636,000	\$111,198,000	\$90,250,000
Five-Year Total	\$412,500,000	\$422,083,000	\$529,522,000	\$427,062,456
Five-Year State Gaming Tax	\$90,750,000	\$92,858,260	\$116,494,840	\$93,953,740

Consultants' GGR Estimate	Proposer A	Proposer B	Proposer C	Proposer D
Total Revenue Low	\$56,597,301	\$44,578,568	\$49,588,700	\$63,626,304
Total Revenue Mid	\$81,804,432	\$64,291,628	\$72,538,152	\$90,607,618
Total Revenue High	\$110,262,375	\$86,192,549	\$98,447,258	\$121,068,549

The estimated fee to conduct the scope of work outlined above is \$65,000.

Task 2: Gaming Revenue and Economic Impact Analysis of Proposals

This task requires an overall review of the reasonableness of the casino management proposers' estimates of market potential, gross gaming revenue operating income and expenses,

Mr. Stephen Martino
Kansas Racing and Gaming Commission
February 11, 2008
Page 4

employment, and economic and fiscal impacts. The Consultants have extensive experience in conducting these types of analyses and are well-prepared to evaluate the proposals in these terms. Our methodology for each component of the Task follows.

a. The Feasibility of the Overall Proposal

Task 1 will estimate the market potential for each gaming zone and for each proposal within a zone. The findings will include annual gross gaming revenue, annual visitors, average spend per visitor, and state gaming tax revenue. This component will add to Task 1 by estimating the number of table games and electronic devices (slot machines) installed and table and device win per unit per day. As noted above, our estimates will be compared to the casino management proposals to determine the overall reasonableness of those proposals. Obviously, our findings and those of the proposers will not be identical, but we will be able to inform the Review Board if the proposers' estimates fall within an acceptable and reasonable range.

b. The Reasonability of the Economic Forecasts

This component involves a review of the proposer's estimate of the casino's economic impact on the regional economy. We will specifically concentrate on the creation of jobs within and outside of the casino (direct, indirect and induced) for both construction and operating phases and the purchases of regional goods and services by the gaming facility (direct, indirect and induced) for both construction and operating phases.

For the Consultants' opinion on the reasonability of the economic forecasts, we will review all the proposals for a given gaming zone and develop a "generic" casino facility that incorporates a general or average facility construction cost, operating employment level, and operating budget. The generic casino's estimated construction/operating costs and estimated construction/operating employment will be provided to the Center for Regional Studies at the University of Nevada Reno for use in its IMPLAN economic input-output model to generate the direct, indirect and induced impacts of the facility. This methodology will provide the Review Board with a reasonable economic impact estimate, and will save time and reduce the Consultants' fee as opposed to calculating the impacts for each proposal submitted.

We will inform the Review Board if the proposers' estimates fall within an acceptable and reasonable range and provide a list of questions that could be posed during Review Board-Proposer deliberations.

c. **The Reasonability of Operational Projections**

We will review and evaluate the *pro forma* financial statement submitted by each proposer. The review will use the information we develop in Task 1 regarding gross gaming revenue and supplement that by estimating non-casino revenue from sources such as food/beverage, retail, hotel, and convention sales to provide a complete picture of potential revenue. We will review operating costs for reasonableness based on industry data. Depending on how the proposer is financing the facility, our review will lead to an evaluation of the proposer’s ability to service debt acquired to build the facility.

For each gaming zone, we will prepare a summary table comparing the applicants’ profit and loss statements. An example of a summary table follows. We will inform the Review Board if the proposers’ estimates fall within an acceptable and reasonable range and provide a list of questions that could be posed during Review Board-Proposer deliberations.

Comparison of Proposers' Income Statement

Revenue:	Proposer A	Proposer B	Proposer C	Consultants' Comments
GGR				
Hotel				
Food & Beverage				
Other				
Total Revenue				
Cost of Sales				
Gross Margin				
Departmental Expenses				
Departmental Income/(Loss)				
Gen'l & Admin. Expense				
Net Income before Income Taxes				

d. **The Reasonability of the Proposal’s Estimates of Fiscal Impacts**

A fiscal impact analysis concerns the public sector revenue and costs associated with a gaming facility. Property and sales tax and revenue from other large sources will be estimated and compared to the costs required to service a “generic” development as explained in “c” above. The impact on local and state governments will be estimated.

Mr. Stephen Martino
Kansas Racing and Gaming Commission
February 11, 2008
Page 6

To address this component, we will talk to government finance representatives and property tax assessors in each county and city within a gaming zone to gain an understanding of the tax structure, tax rates, and revenue distribution formulas. Public sector costs associated with casinos are primarily associated with law enforcement, fire protection, public works (road/street maintenance), emergency medical services, and K-12 schools, if the casinos need to import labor to fill jobs. We will interview providers of these services to get their cost estimates to service the casinos and its patrons. A comparison of revenue generated by the casino and costs to services it will be prepared, resulting in either a revenue surplus or deficit.

Our analysis will be compared to the proposers' estimates of public sector revenue and costs to determine the reasonableness of their projections. This analysis is critical for the Review Board in that it gives its members the information needed to negotiate concessions from the casino managers to cover unfunded service costs. We will prepare a list of questions for the Review Board to use in its deliberations with the proposers that address any concerns we have with the estimates or unfunded liabilities.

Similar to the summary table discussed in Task 1, we will prepare a comparison table for each gaming zone and for each gaming management proposal. The Consultants' estimates documenting public sector revenue and costs will be included in the table for easy review by the Board.

The estimated fee to conduct the scope of work for Task 2 as outlined above is \$53,000.

It should be noted that the fees and scope of work outlined above are dependent on the timely forwarding of proposals to the Consultants and the timeframe in which we have to conduct our analyses. If the proposals are not received in a timely manner or the review period is insufficient, the Consultants will revise the scope of work and professional fee to indicate what analysis is possible given the review time period.

It would be our pleasure to work with you and the Review Board on the evaluation of gaming proposals. We look forward to any questions you may have.

Sincerely,



Candace Evart
President

ADDENDUM 1

COMPANY DESCRIPTION AND CURRICULUM VITAE OF ANALYSTS

MERIDIAN BUSINESS ADVISORS

**COMPANY DESCRIPTION AND
CURRICULUM VITAE OF ANALYSTS
MERIDIAN BUSINESS ADVISORS**

Meridian Business Advisors (MBA) is a long established firm based in Reno, Nevada. Formerly called Howard Consulting Group, the company's name was changed to Meridian Business Advisors in 2003 to better define its business offerings.



MBA specializes in gaming feasibility analyses, economic and fiscal impact analyses, forensic accounting, business and professional practice valuation, and litigation support. MBA has extensive experience in the field of gaming analysis having conducted casino gaming studies in 15 states, three Canadian Provinces and four foreign countries. These gaming feasibility analyses involve market studies and estimates of gross gaming revenue for area specific gaming properties. Our scope of work also can involve analyzing and estimating the regional economic impact generated by the casino property as well as its impact on state and local governments' revenues and costs.

Our analyses consider the potential market for a casino based on competition, population, personal income and other economic variables. Given the market analysis, economic projections are developed that include:

- Number of Daily or Annual Visitors
- Spend Per Day by Visitor
- Annual Gross Gaming Revenue
- Annual Net Income
- Win Per Unit Per Day for Table Games and Slot Machines
- Direct and Indirect Private Sector Spending Impacts
- Fiscal Impact on Governments
- Recent clients include local and state governments, Native American Tribes, and commercial gaming operators.

MBA has been retained by both private and public entities to conduct feasibility studies of new casinos, estimate the economic and fiscal impact of gaming on the private and public sectors, and analyze the revenue impact of changing gaming regulations. MBA has also participated in a number of gaming-related litigation cases, providing Expert testimony and reports. Please see the *curriculum vitae* of our analysts provided below for detailed project information and qualifications.

CANDACE EVART, MBA
PRESIDENT
MERIDIAN BUSINESS ADVISORS

PROFESSIONAL EXPERIENCE

Ms. Evart has been consulting in the casino industry since 1985, specializing in fiscal, market, economic and social impact analyses of the gaming industry as well as specific gaming projects. Clients include both private and public sector businesses and organizations that require assistance in analyzing the economic and social impacts of casino-style gaming.

Gaming analyses have included projections on annual net income and gross gaming revenue, job creation, visitor estimates, public sector tax and expenditure impacts, slot and table game win, and direct and indirect private sector spending impacts. Ms. Evart has provided local and state governments with analyses and advice on gaming legislation, gaming tax structures, request for proposals for gaming operators, fiscal and social impacts, selection of gaming operators, and negotiation with gaming operators.

Gaming consulting engagements have been conducted in or for the following jurisdictions:

Ely, Minnesota	Lorain, Ohio
Council Bluffs, Iowa	Province of Quebec, Canada
Harrison County, Mississippi	Washington County, Mississippi
Auckland, New Zealand	Province of Saskatchewan, Canada
Government of Israel	Michigan City, Indiana
Windsor, Ontario, Canada	Gretna, Louisiana
Blackhawk, Colorado	Gary, Indiana
Norfolk, Virginia	Richmond, Virginia
Pittsburgh, Pennsylvania	Island of Jersey, Channel Islands
Province of Ontario, Canada	State of Nevada
Sullivan County, New York	State of Arizona
State of New York	State of California
State of Texas	County of Sonoma, California

Indian gaming engagements include:

Ute Mountain Ute Tribe, Colorado
Port Gamble S'Klallam Tribe, Washington
Chippewas of Rama First Nation, Province of Ontario, Canada
All Tribal Casinos, State of Arizona Department of Gaming
Pueblo of Pojoaque, New Mexico
Alabama Coushatta, Texas
Spokane Indian Tribe, Washington
Shinnecock Indian Nation, New York

SELECTED SPEAKING ENGAGEMENTS

International Conference on Gambling and Risk-Taking, London, England, "Public Sector Fiscal Impact Analysis of Casino Gambling."
World Gaming Congress, Las Vegas, Nevada, "Economic Implications of Casino Gambling."
World Gaming Congress, Las Vegas, Nevada, "Advantages and Disadvantages of Limited v. Unlimited Number of Gaming Licenses."
First Nations Gaming in Canada Conference, Vancouver, B.C., "Market Studies for Casinos."
National First Nations Gaming Conference, Vancouver, B.C., "Gaming Feasibility Studies and Market Analysis."
National Conference of State Legislatures, San Diego, California, "Casino Gambling: Expectations and Realities."
Federal Reserve Bank of Atlanta Conference, "Financing Government with Gaming," and "Gambling and Gaming - How Much Bang for the Buck Do They Bring?"
National Association of Housing and Redevelopment Agencies, Denver, Colorado, "Casino Gaming in the United States."
Institute for International Research, Toronto, Canada, "The Canadian Casino Industry."
The Times and Louisiana State University, Shreveport, Louisiana, "Maximizing the Economic Impact of Riverboat Gambling."
Urban Land Institute, Palm Springs, California, "Gaming in the Coachella Valley: Myths and Realities."
American Planning Association National Conference, San Francisco, California, "Casino Gaming in Small and Rural Towns."
William F. Harrah Institute of Casino Entertainment, "Gaming and Social Policy."
University of Nevada Reno, Division of Continuing Education, "The Social Impacts of Casino Gaming."
Southern Municipal Finance Society, Atlanta, Georgia, "The Economic Impact of Gambling on Municipalities."
Ryerson Polytechnic University, "Urban Casinos - Can Their Performance Be Predicted?", at The First Conference on World Tourism and the Future, Toronto, Canada.

PUBLICATIONS

"Fiscal Impact Analysis: Casino Gaming and the Public Sector," in *Gambling and Commercial Gaming, Essays in Business, Economics, Philosophy and Science*, Edited by William R. Eadington and Judy A. Cornelius, Institute for the Study of Gambling and Commercial Gaming, University of Nevada, Reno, 1992.

"Casino Gaming and the Unwary Host Casino - Lessons Learned", in *Gambling and Commercial Gaming, Essays in Business, Economics, Philosophy and Science*, Edited by William R. Eadington and Judy A. Cornelius, Institute for the Study of Gambling and Commercial Gaming, University of Nevada, Reno, 1997.

"Selecting a Gaming Developer: Guidelines for Municipal Governments," co-authored with Carl Zeitz and Richard Treptow, in *Gambling and Commercial Gaming, Essays in Business, Economics, Philosophy and Science*, edited by William R. Eadington and Judy A. Cornelius, Institute for the Study of Gambling and Commercial Gaming, University of Nevada, Reno, 1997.

EDUCATION

B.A. University of California, Berkeley
M.B.A. University of Nevada, Reno
Post Graduate: "Executive Development Program in Casino Management,"
University of Nevada, Reno

PROFESSIONAL/COMMUNITY ASSOCIATIONS

Former Commissioner, Nevada State Tax Commission, Appointed by the Governor
Former Member, Board of Governors, Renown Medical Center, Reno, Nevada
Former Chairman, and Current Member, Board of Trustees, Nevada Land Conservancy
Former Treasurer, PACK PAWS, University of Nevada Reno Women's Athletics
Advocacy Organization
Past Board Member, Nevada Women's Fund
Past Chairman, United Way of Northern Nevada
Past Layperson Appointee, Northern Nevada Bar Association, Disciplinary
Committee
Past President, YWCA, Reno, Nevada

Candace Evert
775 827-5300
775 827-5301 (fax)
e-mail: cevert@mbareno.com

EUGENIA KOKUNINA, MBA, CMA, AVA
SENIOR ANALYST
MERIDIAN BUSINESS ADVISORS

EDUCATION & CERTIFICATIONS

BS, Marketing and International Business with a focus in Russia, a minor in Economics,
with High Distinction, University of Nevada, Reno
MBA, University of Nevada, Reno
CMA, Certified Management Accountant
AVA, Accredited Valuation Analyst

EXPERIENCE

Ms. Kokunina's areas of practice include financial, fiscal impact and economic analyses dealing with large real estate developments and the gaming industry. Eugenia has participated in a number of gaming feasibility studies in California, Colorado, New York, Texas, and other states. She also provides analyses and research for the litigation support division of the firm. She has an excellent working knowledge of financial statements, governmental structures, revenue and costs. Ms. Kokunina also has experience in the fields of personal and commercial damages and business interruption.

PROFESSIONAL/COMMUNITY ASSOCIATIONS

Student, Reno-Sparks Leadership
Executive Board, Pack PAWS, University of Nevada Reno, Women's Athletics Development
Organization
Member, Institute of Management Accountants (IMA)
Member, National Association of Certified Valuation Analysts (NACVA)
Member, American Rehabilitation Economics Association (AREA)
Member, Toastmasters International
Member, Young Professionals Network (YPN)
Member, Beta Gamma Sigma National Honor Society
Member, Golden Key National Honor Society
Member, Phi Kappa Phi Honor Society

PUBLICATIONS

"Tourism Districts to Drive Industry in State." Northern Nevada Business Weekly. July 16,
2007.

Eugenia Kokunina
e-mail: ekokunina@mbareno.com

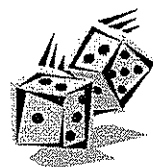
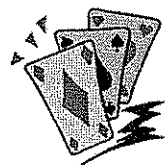
ADDENDUM 2

COMPANY DESCRIPTION AND CURRICULUM VITAE OF ANALYSTS

WELLS GAMING RESEARCH

Wells Gaming Research

Service you can count on!



Information Package

Professional Services

Online CPCS™ Description

Richard H. Wells, Background & Qualifications

Client List (Current & Previous Clients)

August 2007

495 Apple Street, Suite 205

Reno, Nevada 89502

Phone: (775) 826-3232

Fax: (775) 827-0986

E-Mail: richard@wellsgaming.com

Web Page: <http://www.wellsgaming.com/>

Professional Services Offered:

Casino Player Count Service™:

WGR's Casino Player Count Service™ has become the standard for measuring relative player count performance within the casino gaming industry. Our player count service is widely used by casinos, as well as by equity analysts who cover public gaming companies. WGR's weekly online player count reports are accompanied by a host of powerful, user friendly analytical tools that make it quick and easy for a client casino to monitor the competition. Client casinos can simply logon to WGR's website and evaluate their competitors using the following performance criteria:

- Casino rankings based on player count volume
- Number of table game and/or slot machine players
- Percent distribution of players
- Gaming capacity inventory for both table games and slot machines
- Percent distribution of market capacity
- Percent of capacity utilized
- User defined market fair share percentages

Fair Share Goal Setting Targets for User Defined Markets

One of the newest and most exciting features of WGR's Casino Player Count Service™ is fair share goal setting for user-defined markets. WGR's online player count service automatically calculates the number of players required for a casino to reach a series of fair market share targets (for example, 100%, 105%, and 110%).

Gaming Capacity Inventories

WGR updates the gaming capacity inventory statistics for the player count service on a quarterly basis. Client casinos can easily monitor capacity adjustments for both table games and slot machines for their casino, as well as for their competitors. WGR's website also provides a capacity trend analysis feature.

Equity Analysts

Equity analysts use WGR's Casino Player Count Service Reports™ to monitor player counts for individual casinos owned by public companies and for an entire market areas. WGR's player count statistics are also given consideration by equity analysts when forecasting quarterly casino revenues.

Data Collection for WGR's Casino Player Count Service

WGR's field representatives physically count casino players five or more times per week in 163 casinos located throughout the U.S. WGR's current player count service areas include California, Louisiana, Mississippi, Nevada, and New Mexico.

Casino Feasibility Studies:

WGR's databases contain a detailed history of casino player counts collected in eleven major gaming markets located throughout the U.S. This exclusive player count information provides WGR with a proprietary resource that is unmatched for projecting player volume, which is a key variable in the revenue function.

WGR has conducted casino feasibility studies and financial projections for a number of new casinos including those proposed for:

- **Mississippi** – Tunica.
- **Nevada** - Las Vegas (the Strip, the Offstrip, and North Las Vegas), as well as for Reno, Henderson, Carson Valley, and Jackpot.
- **Nova Scotia** - Halifax and Sydney.

Casino Gaming Market Studies:

WGR's databases contain over 350,000 casino player counts collected between 1990 and 2007. Capacity information is collected and updated regularly on each casino's inventory capacity mix of slot machines and table games. The player count data allows WGR to track individual casinos, groups of casinos, and casino markets more closely and accurately than any other organization except the state gaming regulatory authorities.

WGR has developed a, custom casino gravity modeling system designed to forecast casino revenues while taking into account the impacts that new or expanded competing casinos could have on the project. The model is customized to include the appropriate trade area and competitive casinos for each project.

Major market studies include:

- Las Vegas, Nevada area (the Strip, Offstrip, North Las Vegas, and Henderson)
- Reno, Nevada
- Minden/Gardnerville, Nevada
- Carson City, Nevada
- Sparks, Nevada
- South Lake Tahoe, Nevada
- Tunica, Mississippi
- Natchez, Mississippi
- Vicksburg, Mississippi
- Shreveport, Louisiana
- Northern California
- Spencer, Iowa
- Ottumwa, Iowa
- Emmetsburg, Iowa
- Waterloo, Iowa
- Davenport, Iowa
- Bettendorf, Iowa

- Sugar Creek, Missouri
- Southern Kansas
- Southern Indiana
- NE Kentucky

Competitive Gaming Equipment Inventories:

WGR conducts capacity inventories of slot machines, electronic player tracking systems, and other gaming equipment located in casinos throughout the U.S. The client selects the casinos to be inventoried and WGR conducts the equipment inventories and does the comparative analyses. WGR's clients include both casinos and major slot machine manufacturers. Slot machine inventory projects include:

- 38 tribal casinos in California
- 108,000 slot machines in 50 U.S. and 5 Canadian casinos (Inventories conducted twice yearly)
- 18,000 slot machines located in eight large Las Vegas casinos

Litigation & Legislative Support:

WGR provides a host of gaming related services to attorneys in the form of:

- Financial and market analyses
- Expert testimony and depositions
- Analyses of opposing expert reports
- Development of questions for depositions
- Development of exhibits for use in court
- Competitive analyses for anti-trust issues
- Exhibits, documents, and expert testimony for legislative issues

Marketing Research:

WGR has conducted a wide variety of gaming related marketing research studies for casino clients, as well as for proprietary internal use. For example, WGR has analyzed:

- The demographics and gambling characteristics of golfers on a nationwide basis.
- The gambling and demographic characteristics of local residents in both Reno and Las Vegas.
- The growth of various forms of gaming in Reno's four major feeder markets (California, Oregon, Washington, and British Columbia).

Marketing Surveys:

Recent market research surveys include:

- 600 Las Vegas Strip visitors for a casino client
- 465 slot directors for a slot manufacturer

- 900 gaming establishments for a slot manufacturer
- 600 telephone inquiries to casino slot departments regarding online slot machine systems

Market & Financial Due Diligence:

WGR is well positioned to assist casino buyers in evaluating gaming markets in terms of:

- Competition
- Financial and operating performance
- Improvement potential of casino acquisition candidates

Financial Benchmark Studies:

WGR conducts financial benchmark studies for existing casinos. Both revenue and expense line items are compared with a casino's peer group of competitors. Differences are flagged. One such study greatly aided the casino client in improving its financial performance and in turning losses into profits.

Special Projects:

WGR conducts special projects on an ongoing basis. Some examples include:

- Casino market supply and demand analyses
- Slot and table game trends
- Casino player trend analyses
- Utilization analyses (table games including Caribbean Stud and Let-It-Ride, as well as slot machines and automatic shuffler)
- Competitive analyses of slot machine inventories and utilization
- Table game instruction programs
- Average bets by table minimums for blackjack and craps
- Player counts by ethnic groups

Other Casino Gaming Services:

Slot Payback Certification

WGR provides verification and certification of win percentages for slot machines and video poker machines. Casinos have successfully used the win percentages in advertising campaigns.

Pedestrian Traffic Counts

WGR has conducted pedestrian traffic studies to determine pedestrian volumes, directions, and other characteristics of pedestrian traffic behavior in targeted areas in both in Las Vegas

and Reno. Two specific locations were the intersection of Las Vegas Boulevard and Tropicana Avenue in Las Vegas and on Virginia Street in downtown Reno.

Special Event Attendance

WGR conducts attendance counts at special events, primarily in Nevada (Reno, Las Vegas, and Laughlin) for convention authorities and other clients. WGR has conducted attendance counts at most of Reno's special events.

Corporate Background:

WGR was established in 1990. In 1995, WGR was incorporated under the laws of the State of Nevada.

WGR is a privately held corporation. The principal officers include Richard H. Wells, President and Peggy P. Wells, Vice President and Secretary/Treasurer.

WGR's president, Richard H. Wells, has over thirty years of experience in conducting financial and market feasibility studies for the casino, hotel, banking, and oil and gas industries. Wells is supported by a well-trained staff with experience and expertise in computer programming, finance, economics, and market analyses.

In addition to the staff, WGR subcontracts, on an as needed basis, with highly qualified and respected professionals who specialize in a wide-range of technical disciplines including marketing research, statistics, demographic statistics and data analyses, economic and social impact analyses, and legal counsel.

Online Casino Player Count Service™

WGR has converted its player count reporting system from a weekly hard copy report to a suite of powerful, online, easy-to-use reporting and analysis tools. The Internet now makes it possible for WGR to share these tools with our Clients. WGR is not only providing its Casino Player Count Service™ Reports online via the Internet, we are also providing our Clients with a host of online analytical tools that include:

- The Client can select the following to conduct analyses on competitor casinos:
 - Competitive set of casinos to be analyzed.
 - Time periods to be considered.
- Seven online reporting menu options are offered:
 1. Monthly
 2. Weekly
 3. Daily
 4. Multi-Month Trend Analysis
 5. User Defined Two-Period Comparisons

6. Capacity Trend Analysis
7. Average Counts by Day of Week or Time of Day

❖ Four options are provided for viewing, downloading, and printing the user defined reports:

1. Web Browser,
2. Tab Delimited Download (Excel or other spreadsheet compatible),
3. PDF file uncompressed, and
4. PDF file compressed.

- Weekend player counts are now available to our Clients by Monday afternoon. All weekly player count data is audited and finalized by Thursday afternoon. This puts the player count data in the Clients hands several days earlier than the hard copy reports.

Online Access:

Each person in our Client's organization who needs access to WGR online service will be assigned a username and personal password for secure website access.

Client Training:

WGR will conduct a training session to acquaint Client users with the new online system. WGR's new online reporting system is easy to use and quick at creating user defined custom player count reports. A half-hour training/orientation session is all that is needed for a user to get started with WGR's new online reporting system.

Hard Copy Reports:

WGR will continue issuing hard copy reports in addition to the online reporting for a period of time. Ultimately, WGR would like to discontinue the hard copy reports, but will work with clients to phase them out in a time period and manner acceptable to each client.

Client List

Current and/or Previous Clients

Aladdin Resort & Casino ~ Las Vegas, Nevada	Harrah's Casino Hotel ~ Laughlin, Nevada
Ameristar Casinos, Inc. ~ Las Vegas, Nevada	Harrah's Hotel Casino ~ Reno, Nevada
Alamo Travel Center ~ Sparks, Nevada	Harrah's Hotel Casino ~ Tunica, Mississippi
Aristocrat Technologies, Inc. ~ Las Vegas, Nevada	Hollywood Casino ~ Tunica, Mississippi
Arizona Charlie's Casino Hotel ~ Las Vegas, Nevada	Horseshoe Casino & Hotel ~ Bossier City, Louisiana
Arizona Charlie's East Casino Hotel ~ Las Vegas, Nevada	Innovative Gaming Corporation of America
Avi Resort & Casino ~ Laughlin, Nevada	International Gaming Technology
Baldini's Sports Casino ~ Reno, Nevada	Isle of Capri Casinos, Inc.:
Bear Stearns Companies, Inc.	Isle of Capri Casino ~ Bossier City, Louisiana
Binion's Horseshoe ~ Tunica, Mississippi	Isle of Capri Casino ~ Biloxi, Mississippi
Boyd Gaming Corporation:	Isle of Capri Casino - Lula, Mississippi
California Hotel & Casino ~ Las Vegas, Nevada	Isle of Capri Casino - Vicksburg, Mississippi
Fremont Hotel & Casino ~ Las Vegas, Nevada	Isleta Casino & Resort - Albuquerque, New Mexico
Main Street Station Hotel Casino ~ Las Vegas, Nevada	ITT Sheraton Gaming Division
Sam's Town Hotel & Gambling Hall ~ Las Vegas, NV	John Ascuaga's Nugget ~ Reno, Nevada
Sam's Town Tunica Hotel & Gambling Hall ~ Tunica, MS	KBC Financial Products ~ New York, NY
Stardust Resort & Casino ~ Las Vegas, Nevada	Lady Luck Hotel Casino ~ Las Vegas, Nevada
Bronco Billy's Sports Bar & Casino ~ Cripple Creek, CO	Little Creek Casino ~ Shelton, Washington
Buckingham Research Group, Inc. ~ New York, NY	Majestic Star Casinos:
Caesars Palace Hotel & Casino ~ Las Vegas, Nevada	Fitzgeralds Hotel Casino ~ Las Vegas, Nevada
Cannery Casino Hotel ~ Las Vegas, Nevada	Fitzgeralds Hotel Casino ~ Tunica, Mississippi
Clay County Gaming Initiative, Inc. ~ Clay Co, Iowa	Mandalay Resort Group:
Club Cal-Neva/Virginian Hotel Casino ~ Reno, Nevada	Circus Circus Hotel Casino ~ Reno, Nevada
Coast Hotel & Casinos, Inc.:	Circus Circus Hotel Resort & Casino ~ Las Vegas, NV
Gold Coast Hotel Casino ~ Las Vegas, Nevada	Colorado Belle Hotel & Casino ~ Laughlin, Nevada
Suncoast Hotel & Casino ~ Las Vegas, Nevada	Edgewater Hotel & Casino ~ Laughlin, Nevada
The Orleans Hotel & Casino ~ Las Vegas, Nevada	Excalibur Resort Hotel & Casino ~ Las Vegas, Nevada
Copa Casino ~ Gulfport, Mississippi	Gold Strike Casino & Resort ~ Tunica, Mississippi
DRKW - Grantchester, Inc. ~ New York, New York	Luxor Resort Hotel & Casino ~ Las Vegas, Nevada
Eldorado Hotel Casino ~ Reno, Nevada	Mandalay Bay Resort & Casino ~ Las Vegas, Nevada
Fallon Paiute-Shoshone Tribe ~ Fallon, Nevada	Monte Carlo Resort & Casino ~ Las Vegas, Nevada
Fidelity Investments ~ Boston	Silver City ~ Las Vegas, Nevada
Fitzgeralds Hotel Casino ~ Reno, Nevada	Silver Legacy Resort & Casino ~ Reno, Nevada
Four Queens Hotel Casino ~ Las Vegas, Nevada	Slots-A-Fun ~ Las Vegas, Nevada
Greenspun Corporation ~ Las Vegas, Nevada	Monarch Casino & Resort, Inc.:
Guild, Russell, Gallagher, & Fuller, LTD ~ Reno, Nevada	Atlantis Casino Resort ~ Reno, Nevada
Galleria Associates ~ Henderson, Nevada	
Golden Phoenix Hotel Casino ~ Reno, Nevada	Ramada Inn Speakeasy Casino ~ Reno, Nevada
Mikhon Gaming Corporation	Rampart Casino ~ Las Vegas, Nevada

Client List (continued)
Current and/or Previous Clients

Nevada Resort Association ~ Las Vegas, Nevada

MGM • Mirage:

Beau Rivage Hotel & Casino ~ Biloxi, Mississippi
Bellagio Hotel & Casino ~ Las Vegas, Nevada
Golden Nugget Hotel & Casino ~ Laughlin, Nevada
MGM Grand Hotel Casino ~ Las Vegas, Nevada
New York New York Hotel & Casino ~ Las Vegas, NV
The Mirage Hotel & Casino ~ Las Vegas, Nevada
Treasure Island at the Mirage ~ Las Vegas, Nevada

Palms Casino Hotel ~ Las Vegas, Nevada

Park Place Entertainment:

Bally's Casino Las Vegas ~ Las Vegas, Nevada
Bally's Casino Tunica ~ Tunica, Mississippi
Flamingo Las Vegas ~ Las Vegas, Nevada
Flamingo Laughlin ~ Laughlin, Nevada
Grand Casino Biloxi ~ Biloxi, Mississippi
Grand Casino Gulfport ~ Gulfport, Mississippi
Grand Casino Tunica ~ Tunica, Mississippi
Las Vegas Hilton ~ Las Vegas, Nevada
Oshea's ~ Las Vegas, Nevada
Paris Las Vegas ~ Las Vegas, Nevada
Reno Hilton ~ Reno, Nevada
Sheraton Casino ~ Tunica, Mississippi

Peppermill, Inc.:

Peppermill Hotel Casino ~ Reno, Nevada
Western Village Inn & Casino ~ Sparks, Nevada

Penn National Gaming, Inc.

Boomtown Casino ~ Biloxi, Mississippi
Casino Magic ~ Bay St. Louis, Mississippi

Pinnacle Entertainment, Inc.:

Boomtown Hotel • Casino • RV Park ~ Reno, Nevada
Casino Magic ~ Biloxi, Mississippi
Boomtown Casino ~ Bossier City, Louisiana

R&R Advertising

Rail City Casino ~ Sparks

Ramada Express Hotel & Casino ~ Laughlin, Nevada

GEM, LLC ~ Reno, Nevada

Harrah's Casino Hotel ~ Lake Tahoe, Nevada

Reno/Sparks Convention & Visitor's Authority

Rio Suite Hotel Casino ~ Las Vegas, Nevada

River Hills Riverboat Commission, Ottumwa, Iowa

River Palms Resort Casino ~ Laughlin, Nevada

Riverside Resort Hotel Casino ~ Laughlin, Nevada

Riviera Hotel & Casino ~ Las Vegas, Nevada

Sands Regency Hotel Casino ~ Reno, Nevada

Seven Circle Resorts, Inc.

Sheraton Casino ~ Halifax, Nova Scotia

Sheraton Hotel Casino ~ Tunica, Mississippi

Showboat Hotel Casino ~ Las Vegas, Nevada

Si Redd's Oasis Hotel & Casino ~ Mesquite, Nevada

Silicon Gaming, Inc.

Silver Club Hotel Casino ~ Sparks, Nevada

Silverton Hotel & Casino ~ Las Vegas, Nevada

Station Casinos, Inc.:

Boulder Station Hotel & Casino ~ Las Vegas, NV

Fiesta Henderson ~ Las Vegas, Nevada

Fiesta Rancho Casino Hotel ~ Las Vegas, Nevada

Green Valley Ranch Resort & Spa ~ Las Vegas, NV

Palace Station Hotel & Casino ~ Las Vegas, Nevada

Santa Fe Station Hotel Casino ~ Las Vegas, Nevada

Sunset Station Hotel & Casino ~ Las Vegas, Nevada

Texas Station Gambling Hall & Hotel ~ Las Vegas, NV

Stratosphere Casino Hotel & Tower ~ Las Vegas, Nevada

Terrible's Casino Hotel ~ Las Vegas, Nevada

The Greater Cedar Valley Alliance, Waterloo, Iowa

Thunder Valley Casino ~ Lincoln, California

Treasure Bay Casino Resort ~ Biloxi, Mississippi

Tropicana Hotel Casino ~ Las Vegas, Nevada

Tuscany Hotel & Casino ~ Las Vegas, Nevada

Venetian Resort Hotel Casino ~ Las Vegas, Nevada

WMS Gaming Inc. ~ Waukegan, Illinois

Wild Game NG:

Siena Hotel Spa & Casino ~ Reno, Nevada

Wild Rose Entertainment, LLC ~ Des Moines, Iowa

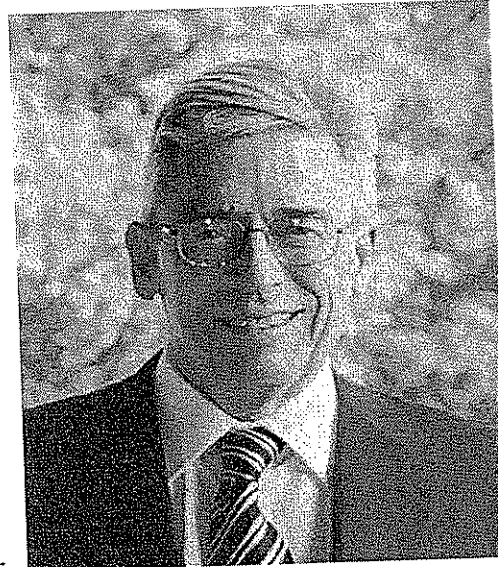
Wynn Resorts, LTD ~ Las Vegas, Nevada

Zeh Saint-Aubin Spoo ~ Reno, Nevada

Richard H. Wells
Experience & Qualifications

Wells is founder and President of Wells Gaming Research, a Nevada Corporation that provides Casino Player Count Service™, a market share tracking service, monitoring over 160 casinos in Nevada, Mississippi, Louisiana, New Mexico, and California.

Wells Gaming Research performs a wide range of consulting and gaming research assignments including casino market studies, financial feasibility studies, financial projections, due diligence, litigation support, legislative issue support and gaming industry expert witness services for the gaming industry.



Wells has fifteen years experience as a senior executive in the casino-hotel industry with Holiday Inns, Harrah's, and Bally's.

Wells has also held positions in senior management, strategic and operational planning, and financial analysis for a large regional bank and a major international oil company.

Wells has a B.S. degree in business from Oklahoma State University and completed a post-graduate program in Systems Dynamics at M.I.T. Wells has participated in a wide range of community service activities and is listed in Marquis Who's Who in Finance and Industry and Marquis Who's Who in America.

Richard H. Wells
President of
Wells Gaming Research

QUALIFICATIONS & EXPERIENCE

QUALIFIED BY: Leadership, experience, and achievements in a broad range of management, administration, casino & hotel development, project feasibility, finance, strategic planning, operations, analysis, research, consulting, and computer modeling functions.

EXPERIENCE AND ACCOMPLISHMENTS

WELLS GAMING RESEARCH - Founder, President **1990 - PRESENT**
Richard H. Wells started a new business, Casino Player Count Service, in November of 1990. The business was incorporated in the State of Nevada in 1995 as Wells Gaming Research (WGR). WGR serves over 80 casino clients with Casino Player Count Service in Nevada, Mississippi, Louisiana, New Mexico, and California. WGR's services have expanded to include gaming market studies, casino project feasibility studies, gaming market research surveys, competitive gaming equipment inventories, financial benchmarking studies, litigation support, expert witness testimony, market and financial due diligence, pedestrian traffic studies, slot payback certification, and special event attendance counts. For more details on the services offered by WGR, please see WGR's *Information Package* or computer website at <http://www.wellsgaming.com>.

BALLY'S CASINO RESORT, RENO, NEVADA **1986-1990**
(A Wholly Owned Subsidiary of Bally Manufacturing - NYSE)
As Vice President of Administration of this 2,000-room casino resort (one of the world's largest) Wells had direct responsibility for eight departments, 426 employees, and an annual operating budget of over \$20 million. Accomplishments included:

- Negotiated seventeen national contracts for items purchased by Bally's four casino resorts located in Nevada and New Jersey, saving Bally's over \$1.5 million per year in the direct cost of purchases.
- Through negotiations with the power company and with the direct transportation of natural gas, Wells saved Bally's Reno over \$300,000 per year in utility costs.
- Developed one of the best security departments in the casino industry.
- Maintained, in good condition, 2.5 million square feet of facility space together with 140 acres of grounds and parking with limited human and financial resources.
- Served on an eight member Executive Committee that was responsible for management of the entire casino hotel property.

Richard H. Wells
President of
Wells Gaming Research

HARRAH'S
(A Wholly Owned Subsidiary of Holiday Corporation - NYSE)

1980-1986

Wells served as Senior Vice President Planning and Administration for two years 1984-1986. Wells had management responsibility for Planning & Financial Analysis, Marketing Research, Project Development, Architectural Design, Purchasing, Food & Beverage, Aviation, Harrah's Auto Collection, Middle Fork Lodge, and Uniform Manufacturing. Prior to this position, he was Senior Vice President of Finance and Planning for four years 1980-1984, responsible for the Controller, Credit, Risk Management, Budgets & Planning, and Corporate Facilities. Both positions were at the Corporate Headquarters and the scope of responsibilities covered all of Harrah's hotel casino properties. Some key accomplishments include:

- Developed the first long-range strategic plan in 1980 with annual updates each of the following six years. These plans made a strong contribution to doubling the size of the company and achieving a six fold increase in earnings.
- Selected and purchased a 50 acre site for a new hotel casino in Laughlin, Nevada. The new project was so successful that it has been expanded twice since opening.
- Performed feasibility studies on numerous casino acquisitions, new projects, and expansion opportunities in Nevada, New Jersey, the Caribbean, London and Western Europe. These projects helped guide Harrah's development activities that included building and operating one of the most profitable casinos in Atlantic City, two major expansions of the Holiday Casino (now Harrah's) in Las Vegas, and construction of Harrah's Del Rio in Laughlin.
- Developed and implemented the strategy for disposition of Harrah's Auto Collection. This included donation of about 200 vehicles for a permanent Reno museum and the sale of 800 vehicles at three public auctions held over a three-year period. The sales were well planned and marketed resulting in \$10 million more than the fair market value appraisals prepared by two leading experts in the classic car field. Provided major assistance to the William F. Harrah Foundation, which was organized by members of the Reno business community (led by Chairman Ben Dasher) to take charge of the donated vehicles and establish a permanent auto museum in Reno.
- Conceived, developed and led a company-wide cooperative purchasing program that included all 13 purchasing directors from all five subsidiary companies of the Holiday Corporation including Harrah's. This project resulted in numerous national contracts that saved the participating companies over \$3 million per year.
- Participated in the leadership and strategy development and provided the research, financial analysis, and presentations that resulted in the successful opposition to the proposed gaming tax increases in Nevada during the 1983 and 1985 legislative

Richard H. Wells
President of
Wells Gaming Research

sessions. Provided leadership, strategy, research, and presentations for the Gaming Industry in New Jersey that resulted in mitigation of the proposed 2% reinvestment tax to a reduced 1.25%. Savings to the casino industry are conservatively estimated at \$15 million per year. These legislative efforts involved meetings with and presentations by Wells to the governors and their staff, legislative committees, and numerous legislative and business leaders in Nevada and New Jersey.

- Served on a task force that reorganized and strengthened the Atlantic City Casino Hotel Association and the gaming industry's lobbying efforts.

- Wells was a key member of the corporate management team assigned to the start-up of the new Harrah's Marina Casino Hotel in Atlantic City. Harrah's Marina, the first casino to open in the marina area, opened in late November of 1980 and had accumulated losses of several million dollars by January 1981. The start-up team turned it around and put it in the black by the summer of 1981. Since that time, it has consistently been among the most profitable casinos in Atlantic City.

HOLIDAY CORPORATION (Holiday Inns, Inc. - NYSE)

1975-1980

Mr. Wells served in three positions at Holiday, including Vice President of Corporate Administration, 1979-1980; Vice President of Finance for the Hotel Group, 1978-1979; and, Vice President of Planning & Financial Analysis (Inn Development Division) 1975-1978.

As Vice President of Administration at Holiday Inns, Inc. at the Corporate Headquarters, Wells was responsible for Headquarters Facilities, Maintenance, Purchasing, Real Estate, Security, Aviation, Word Processing, Printing, Record Retention, Telecommunications, the Credit Union, and Retirement Plans. Accomplishments in this position included:

- Improving the performance of a Florida real estate joint venture (a 6,000-acre residential development project) from a loss position to a \$2 million per year profit.
- Serving as President of an insolvent 15,000 member credit union. Wells developed a work out plan, obtained approval of regulatory authorities and turned the credit union around from a loss to a profitable position.
- Selling numerous real estate holdings of Holiday Inns that were not needed for future hotel development including a 1,000 acre industrial park.
- As chairman of the trustees of Holiday's retirement plan, developed investment objectives, measurement methods and criteria and improved the performance of the Plan's investment portfolio.

Richard H. Wells
President of
Wells Gaming Research

- Converted 300,000 square feet of space at the Headquarters & Hotel Group Office into a modern, open office using only the in-house construction crew.
- Operated an efficient, high quality, and exceptionally safe corporate aviation department that consisted of two Lear jets.

During his four years in the Hotel Group, Mr. Wells managed Long Range Planning, Budgets, Franchise Credit, Franchise Database, Financial Analysis, and Project Feasibility Studies for Holiday Inns worldwide. A few key accomplishments at the Hotel Group included:

- Developed the first long range strategic and financial plan in 1975 with updates each year through 1979 for Holiday Inns, Inc. Hotel Group, the largest hotel company in the world at that time. These plans made a major contribution to the four-fold increase in earnings achieved during this period.
- Directed over 300 hotel related feasibility studies per year for a total of over 1,200 during the four-year period. These studies resulted in disposition of over 100 marginal company owned Holiday Inns, numerous expansions and modernizations of profitable hotels, and the development of several new Holiday Inns.
- Served as a member of the Corporate Franchise Committee, which reviewed and approved all Holiday Inn franchise hotel projects worldwide. This committee also reviewed and enforced standards of performance for franchised hotels.
- Improved collections, reduced delinquencies, and modernized franchise credit operations.

UNION PLANTERS NATIONAL BANK

1969-1975

Wells joined the bank as Budget Director and was promoted to Assistant Vice President and then to Vice President of Planning and Marketing. Responsibilities included Budgets, Long Range Strategic Planning, Financial Studies, Cost Accounting, Methods and Standards, and during the last year Advertising, Marketing, Market Research, and Public Affairs. Key accomplishments included:

- Development and implementation of a new financial accounting system that would accommodate line item budgeting and reporting for both balance sheet and income statement accounts for each department of a \$1 billion bank.
- Development and implementation of an annual business planning and budgeting system.

Richard H. Wells
President of
Wells Gaming Research

- Conducted numerous cost and profitability studies of bank services, developed and implemented a profitability analysis system for commercial bank accounts, and led a pricing review of all bank services.
- Established a Methods and Standards Department to improve the efficiency of operations, establish staffing guidelines, and develop standards for accurate cost accounting.
- Established a cost accounting function, selected, purchased and installed state of the art cost accounting software and systems.
- Wells headed several new business ventures including an automated teller project, a mortgage company acquisition, and the start up of credit life insurance and equipment leasing services.
- Developed a comprehensive retail-marketing plan for Union Planters National Bank in the Memphis Metropolitan Area.

CONTINENTAL OIL COMPANY

1964-1969

Wells started as a Management Trainee after graduation from Oklahoma State University and progressed to Senior Financial Analyst. He served in three separate departments, including Continental Pipe Line Co. (a subsidiary), Natural Gas Department, and Gas and Chemicals, Inc. (an LPG subsidiary). Assignments included a heavy focus on operating budgets, capital budgets, annual operating plans, and five-year plans, as well as the management of accounting and credit administration. At the time that Wells was at Conoco, the company was a leader in the field of financial and strategic planning (the concept of net present value analysis was developed at Conoco). It a great place to learn the trade.

EDUCATION

Oklahoma State University, B.S. Degree in Business Administration

1964

Massachusetts Institute Of Technology, Systems Dynamics Program

1985-1986

Completed over thirty five professional development programs on finance, planning, and management topics

1964-1994

Richard H. Wells
President of
Wells Gaming Research

COMMUNITY & PROFESSIONAL SERVICES

Economic Development Authority of Western Nevada (EDAWN)	<u>1992-1994</u>
Member of the Board of Directors	<u>1990</u>
Washoe Medical Foundation Project Management Group	
Reno/Sparks Convention and Visitors Authority,	<u>1990-1991</u>
Research Council Member	<u>1984-1985</u>
Reno Chamber of Commerce, Board Member	
Task Force for Economic Diversification of Reno, Nevada	<u>1984</u>
Member of Task Force	
Task Force for Downtown Redevelopment of Reno, Nevada	<u>1984</u>
Member of Task Force	<u>1983-1984</u>
Member, Nevada Governor's Economic Advisory Committee	<u>1979-1980</u>
Holiday Inn Employee Savings Association, President	<u>1979-1980</u>
Holiday Inns, Inc. Retirement Plan, Chairman of Board of Trustees	
Financial Executives Institute, President	<u>1974-1975</u>
Memphis, Tennessee Chapter	

LICENSES

Nevada Real Estate License	<u>1991-Present</u>
Nevada, Key Employee Casino License, (Harrah's)	<u>1980-1986</u>
New Jersey, Qualifier Casino License (Harrah's)	<u>1980-1986</u>

WHO'S WHO LISTING

Marquis
Who's Who in Finance and Industry, 26th edition, 1990-1991, and 28th edition, 1994-1995 and Marquis Who's Who in America, 59th edition, 1996.

ADDENDUM 3

DISCLOSURE OF CONFLICT OF INTEREST

DISCUSSION OF CONFLICT OF INTEREST

The following are the answers to the Kansas Racing and Gaming Commission's questions regarding conflicts of interest as related to the proposed project.

Question 1. Are you working for or have you done work on a Kansas casino proposal?

Wells Gaming Research (WGR): WGR conducted preliminary market studies for Isle of Capri in the Wichita, KS market during 2006. It is my understanding the Isle of Capri decided not to file an application.

Meridian Business Advisors (MBA): We have not conducted any work on a Kansas casino proposal in the past and are not currently working on such a proposal.

Question 2. Have you done any work on behalf of the parent companies of prospective Kansas casino managers in the past two years?

WGR: We have not conducted casino market studies for any of the applicants within the past two years. Several casinos owned by the applicants subscribe to WGR's Casino Player Count Service in Nevada, Mississippi, and Louisiana. Those companies include: Pinnacle (Boomtown Bossier City and Boomtown Reno), Golden Gaming (Carson City), Penn National (Boomtown Biloxi and Hollywood Tunica), Harrah's (Grand Casino Biloxi), and MGM Mirage (MGM Las Vegas and Circus Circus Reno).

MBA: We have been retained by RED Development to estimate the impact of its retail development in Reno, Nevada on local governments. While the development will include a casino, MBA has not performed any gaming-related analysis for this development. MBA was retained to estimate the fiscal impact analysis, defined as revenues and costs to the local government associated with this development. The development includes a large retail portion, casino, hotel, RV part, and arena.

Question 3. Have you ever done any work on behalf of the parent companies of prospective Kansas casino managers?

WGR: Yes, in addition to the answer to 2 above, WGR conducted a market study for Golden Gaming for the Carson City Market in 2005. In prior years, WGR has done consulting work for Harrah's, Golden Gaming, and MGM Mirage.

MBA: Yes, MBA was retained by the attorneys for Harrah's Reno as an Expert witness in a wrongful termination case. MBA did not perform any gaming-related analysis; MBA was retained to review and critique an economic loss report prepared by the Expert for the Plaintiff.

ADDENDUM 4

**HOURLY PROFESSIONAL BILLING
RATES,
ESTIMATED PROFESSIONAL TIME TO
COMPLETE PROJECT,
AND STATEMENT OF AVAILABILITY**

HOURLY PROFESSIONAL BILLING RATES

Meridian Business Advisors	Hourly Rate
Candace Evert, President	\$295.00
Eugenia Kokunina, Senior Analyst	\$185.00
Administrative Support	\$ 50.00

Wells Gaming Research	Hourly Rate
Richard H. Wells, President	\$295.00
Senior Consultant	\$150.00
Administrative Support	\$ 50.00

ESTIMATED PROFESSIONAL TIME TO COMPLETE PROJECT

Assuming that all proposals are received at one time, we estimate 10 to 12 weeks to complete the analyses. The proposals will be analyzed in priority order based on Board Review time frames for decisions.

STATEMENT OF AVAILABILITY

Candace Evert, President, Meridian Business Advisors and Richard H. Wells, President, Wells Gaming Research, and other participating staff will be available for meetings with the Review Board and to perform any professional services as outlined in the proposal between May and September 2008 as requested by the Review Board or its representatives.

Kansas Lottery Gaming Facility Review Board

STAFF AGENDA MEMORANDUM

DATE OF MEETING: February 20, 2008

AGENDA ITEM: Discussion, consideration and possible action on retaining William Cummings as a Review Board consultant.

PRESENTER: Stephen Martino

ISSUE SUMMARY: During the December 20, 2007, meeting, the Lottery Gaming Facility Review Board commissioned KRGC staff to identify experts to consult the board in various matters in order to make an informed decision consistent with its charge under SB 66, the Kansas Expanded Lottery Act.

At the January 28 board meeting, staff received approval to contract, subject to state law and regulations, with William Eadington, Ph.D., to be a board consultant. Furthermore, staff indicated a desire to use Professor Eadington's knowledge and expertise in gaming consulting to educate and improve the identification of other members of the consulting team.

William Cummings has been involved in consulting for casino and gaming operations since 1975. In that time he has analyzed various markets and their suitability for casino operations. This analysis has included advising governments involved in casino gaming decisions within their jurisdiction.

Mr. Cummings will offer consultation on the gaming zone market potential and the gaming revenue and economic impact analysis for each management proposal. At the completion of the process, two consultant teams will have worked in both of these areas, which will provide redundancy and an ability to peer evaluate widely divergent conclusions. Staff is recommending that these tasks be completed as well by Richard Wells and Candace Evert (a separate staff memorandum on them is contained in this packet.) Mr. Cummings will provide reports, testimony and other support as necessary in assessing these areas for the Board.

BOARD ACTION REQUIRED/REQUESTED: Authorize the executive director to contract with, subject to state law and regulations, William Cummings as a Review Board consultant.

Cummings Associates

Will E. Cummings Principal

Mr. Cummings has engaged in management consulting since 1975. Prior to founding Cummings Associates, Mr. Cummings directed consulting firms including Christiansen/Cummings Associates, Inc., specializing in entertainment and legal gambling, and Killingsworth Associates, Inc., focusing on professional sports and pari-mutuel racing. His early experience was with Pugh-Roberts Associates, Inc., which specialized in applying system dynamics computer simulation techniques to strategic planning and forecasting in a wide range of industries, including, for the Jockey Club, the first wide-ranging study of the economics of Thoroughbred racing in North America.

Mr. Cummings has directed studies of the economics, management, operations, taxation, and regulation of leisure and entertainment businesses in more than forty states, provinces, and foreign countries, with particular focus on gaming and wagering. The subjects of these studies have included sports, entertainment, communications, casinos, sports wagering, state lotteries, and all segments of the racing and pari-mutuel wagering industries. His engagements have included:

- Assessing the overall economic contribution of commercial gambling industries to countries, states, and individual localities;
- Estimating the degree of saturation and potential for growth in various markets, and assessing the interactions among numerous competing facilities and activities;
- Due diligence and other assessments of the performance, current value, and/or likely prospects of a variety of firms engaged in the sports and gambling businesses, or as suppliers thereto, including professional sports teams, race tracks, off-track betting systems, casinos, state lottery agencies, and vendors of goods and services to these industries;
- Evaluation of proposed cable television networks for major U.S. media companies;
- Assistance to government entities privatizing racing and wagering facilities, including the *Patronato Hipodromo V Centenario* in the Dominican Republic, Connecticut's State-operated OTB system, and the *Fondo de Inversiones de Venezuela*; and
- Expert testimony in a variety of legal cases and regulatory procedures regarding issues such as facility licensing, financing, racing dates, Native American gaming, off-track betting, charitable casino gambling, anti-trust issues, and fair trade practices.

Mr. Cummings received his Bachelor's and Master's degrees from the Sloan School of Management at the Massachusetts Institute of Technology. He has testified before the U.S. Congress, state legislatures, local government bodies, and regulatory agencies. He has also appeared as a featured speaker before the Association of Racing Commissioners International, Racetracks of Canada, the World Greyhound Federation, the University of Arizona Race Track Industry Program and its annual Symposium on Racing, and many other academic and industry organizations.

Cummings Associates

Major Projects

November, 2006

- Numerous market analyses and feasibility studies for new, expanded, or enhanced casinos, video lottery terminal (VLT) systems, and race track slot-machine facilities. I have recently conducted studies of this type in:

- New York
- New England
- Pennsylvania
- Michigan
- Indiana
- Iowa
- South Dakota
- New Mexico, and
- The Caribbean.

I use and have contributed to the development of sophisticated "gravity models" for many of these analyses. A description of this methodology and assessment of some of its finer points may be found in my paper and powerpoint presentation at the web site of the Institute for the Study of Gambling and Commercial Gaming at the University of Nevada, Reno, [www.unr.edu/gaming/13th Conference Web files/Files/Abstracts](http://www.unr.edu/gaming/13th%20Conference%20Web%20files/Files/Abstracts).

I have also reviewed and/or developed detailed financial statements for existing and/or proposed legal gambling establishments in roughly forty states of the U.S., most of the provinces of Canada, and a variety of jurisdictions outside North America.

- Advice to government regulatory bodies evaluating financial stability, projected performance, and casino and race track license application issues. Major clients of this type have included:

- Alberta Racing Corporation (now Horse Racing Alberta)
- Connecticut Division of Special Revenue
- Iowa Racing and Gaming Commission
- Missouri Horse Racing Commission
- New Jersey Casino Control Commission

135 Jason Street, Arlington, Massachusetts 02476
Telephone: 781.641.1215 - fax: 641.0954 - email: cummingsw@aol.com

- New Mexico Racing Commission
- Ohio Racing Commission
- South Dakota Commission on Gaming
- Washington (State) Racing Commission
- For several State Racing and Gaming Commissions, detailed assessments of the markets for casino gaming in their states and neighboring areas, including the prospective performance and impacts of multiple new entrants and/or expansions of facilities in areas already containing many existing facilities. Recent examples may be found at www.state.ia.us/irgc/cummstudyanal3.pdf and www.state.sd.us/drr2/reg/gaming/Analysis.pdf.
- For Dubuque Greyhound Park, *prior* to Iowa's riverboat gaming legislation, a study of the feasibility of riverboat gambling on the Mississippi. Participation rates, likely casino win, and costs of operation were projected based upon data regarding local consumer behavior, competitive interactions, cruise ship gaming norms, and the economics of small-scale casino enterprises.
- For Dubuque and a wide variety of other pari-mutuel facilities, as well as several state lottery agencies, the likely performance and impacts of the introduction of gaming devices and/or full-scale casino gaming have been assessed. Mr. Cummings has worked with the racing industries and state lotteries of numerous jurisdictions to assist in the introduction of gaming devices on favorable terms.
- An extensive study in 1991 for the Connecticut Division of Special Revenue examining the current status of all types of gambling legal in that state, the competitive threats facing those industries (including the soon-to-be opened Foxwoods casino at Ledyard), and ten alternative future options regarding legal gambling (including privatization of State-owned facilities). This study included both telephone and intercept surveys. Mr. Cummings's projections for the performance of Foxwoods and its impacts were borne out.
- Assessment of the prospects for other new casinos in a wide variety of markets, including several islands in the Caribbean.
- Numerous market analyses and feasibility studies for new race tracks, off-track betting systems, and related pari-mutuel facilities. Over the course of his career, Mr. Cummings has been involved with (for, against, or independently assessing) more than sixty proposed horse and greyhound tracks, including most recently:
 - Zia Park, a combination horse track / slot-machine facility now operating in Hobbs, New Mexico;

- Valley View Downs, a harness track / slot facility proposed near Pittsburgh; and
- New race track / slot facilities proposed for Calgary and Red Deer, Alberta.

Of particular note, Mr. Cummings directed the initial feasibility studies for (a) Dubuque Greyhound Park, the first municipally-owned greyhound track in the U.S., then subsequently at Dubuque, (b) one of the first riverboat casinos in the U.S., (c) one of the first "slots-at-track" casino facilities, and most recently (d) the expansion of that casino to include table games.

- Detailed assessments of the operational and financial performance of casinos, race tracks, off-track betting organizations, and state and provincial lottery agencies.
- Assistance to government entities investigating or preparing for the privatization of racing and wagering facilities, including the *Patronato Hipodromo V Centenario*, in the Dominican Republic, the Connecticut OTB system, then operated by that State's Division of Special Revenue, and the *Fondo de Inversiones de Venezuela*, with regard to the race tracks of that country.
- For major media companies evaluating investments associated with the legal gambling industries, consumer and industry attitudes, needs, and preferences were assessed. Detailed ten-year forecasts of the likely performance of these industries were also developed.
- Due diligence assessments of the performance of, current value of, and/or likely prospects for a variety of firms engaged in gambling businesses, or as suppliers thereto, including race tracks, casinos, off-track betting systems, state and provincial lottery agencies, and equipment suppliers to these businesses.
- Design and analysis of telephone and intercept survey research for a wide range of horse tracks, greyhound tracks, jai alai frontons, off-track betting facilities, casinos, and state lotteries.
- Expert testimony in litigation regarding charity casinos, Native American gaming, card clubs, horse racing, anti-trust issues, financing, fair trade practices and a variety of other matters related to legal gambling.

Cummings Associates

Notable Clients

Race Tracks

Dubuque Greyhound
Park and Casino
El Comandante
Fraser Downs
Gulfstream Park
Hoosier Park
Ladbroke Racing Corp.
Multnomah Park
New York Racing
Association
Northfield Park
Oaklawn Park
Ontario Jockey Club
Phoenix Greyhound Park
Rockingham Park
Ruidoso Downs
Santa Anita
Suffolk Downs
Turf Paradise
Westwood Racing
Holdings, Inc.

Other Pari-Mutuel

American Totalizator Co.
Autotote Corporation
Bridgeport Jai-Alai
Cloverleaf Standardbred
Owners Association
Harness Horsemen
International
United Tote Company

Regulatory Agencies

Connecticut Division of Special
Revenue
U.S. Federal Trade Commission
Horse Racing Alberta
Iowa Racing and Gaming
Commission
Milton Marks Commission on
Economy and Efficiency in
State Government (California's
"Little Hoover Commission")
Missouri Horse Racing
Commission
New Jersey Casino Control
Commission
New Mexico Racing Commission
Ohio Racing Commission
South Dakota Commission on Gaming
Washington Racing Commission

State and Provincial Lotteries

Atlantic Lottery Corporation
Loto Quebec
Massachusetts State Lottery
Virginia State Lottery

Other Gambling-Related

Ameristar Casinos Inc.
Centaur Inc.
City of San Jose, California
Fondo de Inversiones de Venezuela
ITT/Sheraton Corporation
Mirage Resorts Inc.
Penn National Gaming Inc.
United Video Satellite Group

Cummings Associates

Will E. Cummings
Principal

Engagements in Assistance of Litigation

- o The economics of operating a stable of Thoroughbred race horses (*Brach* case, Illinois, 1983)
- o Breach of contract between a totalizator company and a race track (*International Totalizator Systems v. Rockingham Park*, New Hampshire, 1986)
- o The conduct, financial control systems and financial performance of "charity" casino nights (*U.S. v. Rooney*, Federal Court, District of Manhattan, 1988)
- o Appeals of regulatory commission procedures (*Bridgeport Jai Alai v. Connecticut Division of Special Revenue*, Connecticut, 1989)
- o Breach of contract between a financial institution and a race track (*Trinity Meadows vs. Van Kampen Merritt*, Texas, 1995)
- o Anti-trust issues relating to the purchase by Native Americans of a race track out of bankruptcy (with prospects for conducting slot-machine gaming) (*re* National Cattle Congress [Waterloo Greyhound Park], Iowa, 1996)
- o Breach of contract between a race track and Nevada casinos (*Grand Resorts et al. v. Los Angeles Turf Club*, Nevada, 1998)
- o Appeal of regulatory commission action (*Lakeside Casino LP v. Iowa Racing and Gaming Commission*, Iowa, 2000)
- o Scale of Indian gaming and impacts of Native American casinos on race tracks, in Arizona (2001) and in Wisconsin (*Dairyland Greyhound Park, Inc. v. Scott McCallum, et al.*, 2002)
- o Impacts of new regulations on patterns of patronage and volumes of business at card clubs in California (*Sutter's Place v. City of San Jose*, ongoing).

Cummings Associates

February 12, 2007

by e-mail

Stephen Martino
Executive Director
Kansas Racing and Gaming Commission
700 SW Harrison, Suite 420
Topeka, Kansas 66603

Re: Consulting for KLGF Review Board

Dear Mr. Martino:

Slightly more polished proposal attached. Note that I have split Task 4 in two: 4A is just revenue projections, 4B adds all the sequels.

Please call if you have any questions or concerns. I appreciate the opportunity to be of assistance.

Sincerely,



Will E. Cummings

enc.

Cummings Associates

Proposal

by e-mail

February 12, 2007

Stephen Martino
Executive Director
Kansas Racing and Gaming Commission
700 SW Harrison, Suite 420
Topeka, Kansas 66603

Re: Consulting for KLGF Review Board

Dear Mr. Martino:

As we have discussed, Cummings Associates (CA) would be pleased to assist you in assessing the market potential of each gaming zone and conducting prospective revenue and impact analyses for the proposed Lottery Gaming Facilities.

I would propose that my involvement be as follows:

1. CA will provide analysis, advice, and reports regarding the following areas (numbering as in your list of needs of January 10):

1. Gaming Zone Market Potential

- (a) Kickoff meeting;
- (b) Update my existing database regarding the locations, sizes, and (where available) gaming win at current facilities in neighboring states (Missouri, Oklahoma, and Colorado), as well as for the set of most comparable markets elsewhere (most prominently, Iowa). From this data, develop estimates for the ratios of residents' spending on slot and table gaming versus population likely most appropriate for new facilities in Kansas;
- (b) Update demographic data in my existing Midwest casino models for Kansas and the nearby areas of surrounding states, with particular focus on and greatest detail for the four gaming zones and nearby metro areas (i.e., convert from county-based calculations to zip codes);
- (c) Develop, in consultation with you, representative assumptions regarding locations, sizes, and conditions of operations at Kansas facilities, as well as new competitor(s) in Oklahoma;
- (d) Use gravity models to develop projections for (i) slot win and (ii) table win in each zone;

(e) Written & verbal report.

Estimated professional time:	70 hours
Estimated prof. fees (not inc. travel costs): (at 80% of my standard rate)	\$22,400

4A. Gaming Revenue Analysis of Proposals

(a) Review relevant portions of each proposal;

(b) Adapt the assumptions presented in each proposal onto common ground so as to develop projections under multiple scenarios for each gaming zone: one for each applicant exactly "as proposed," and one for each applicant "on common ground" so as to better compare apple to apples (in gaming zones with only one applicant, of course, only the "as proposed" may apply);

(c) Use gravity model to develop independent revenue projections for each scenario;

(d) Prepare spreadsheet and/or graphic exhibits comparing the alternative proposals;

(e) Written & verbal report.

Estimated prof. time:	30 hours intro & wrapup + 15 hours for each proposal
Estimated prof. fees (not inc. travel): (at 80% of my standard rate)	\$9,600 + \$4,800/proposal

4B. Economic Impact Analysis of Proposals

(a) Review relevant portions of each proposal;

(b) Prepare spreadsheet and/or graphic exhibits comparing the alternative proposals as proposed;

(c) Recast to the extent possible the projections of each on an "apples-to-apples" basis, using independent or consensus estimates for underlying parameters such as economic/demographic growth, operating margins, employment ratios, and multipliers;

(d) Repeat (b), using the "apples-to-apples" assumptions developed in subtask (c) as well as the independent revenue projections developed in 4A above;

(e) Written & verbal report.

Estimated prof. time: 15 hours intro & wrapup + 15 hours for each proposal

Estimated prof. fees (not inc. travel): \$4,800 + \$4,800/proposal
(at 80% of my standard rate)

2. Each task budget includes one formal presentation or session of testimony regarding my analysis. If requested, I will be available for additional presentations at my standard rates at any time in the future that may be scheduled by mutual agreement.
3. CA will deliver draft and final editions of my work products on a schedule to be set by mutual agreement.
4. As described in Paragraph 1, I propose to charge the Commission by the hour at 80% of my standard rates, or \$320/hour. CA shall not exceed the total professional fees for each task proposed above without your express consent.
5. In addition to professional fees, expenses incurred on your behalf shall be billed at cost, as described in Attachment A. Other proposed terms and conditions of this engagement are also described in Attachment A.
6. This agreement may be terminated by any party, by means of ten (10) days' written notice, provided that such termination may not, without the mutual consent of both parties, waive the obligations described herein. This agreement may also be terminated immediately if any party is found unsuitable for a gaming license in any jurisdiction.

Stephen Martino
February 12, 2008
Page 4

This proposal will remain in effect until March 15, 2008. If it meets with your approval, please let me know, and initiate whatever steps may be required to implement the project.

I look forward to working with you on this project.

Sincerely,

A handwritten signature in black ink, appearing to read "Will E. Cummings", followed by a vertical line.

Will E. Cummings

Cummings Associates

Appendix A

Standard Terms of Engagement

February, 2008

1. Charges for professional time are based upon actual hours expended at standard rates. These rates are as follows:

Principal (WC)	US\$400.00 per hour
Associates	US\$100.00-\$400.00 per hour

It is our policy to bill for professional time spent in travel at the above rates for the scheduled duration of commercial transportation as listed in official timetables. It is also our policy to charge a minimum of ten hours of professional time (US\$4,000.00 for a principal) for any day spent out of our offices. Minimum fees or deposits for other portions of an engagement may also be required.

2. Out-of-pocket expenses, including travel, lodging, telephone, postage, copying, and computer time/data services, are billed as incurred.
3. Our invoices for professional time and expenses are payable upon receipt. The client's payment of these invoices shall not be contingent upon the outcome of the engagement or any portion thereof.
4. All proprietary data which the client provides and all discussions of the client's business are treated as confidential and shall not be divulged to any other party without the client's consent. Upon request, we shall return any proprietary materials supplied to us in the course of our work. However, the analytical techniques, computer software, intellectual property, and general industry data that we have developed or collected shall remain our exclusive property.
5. No document we have issued, or any portion thereof, may be used until we have consented, in writing, to its use as contemplated by the client. The first and subsequent drafts of any documents containing or based upon our material must be submitted to us, along with any accompanying material, for approval prior to publication or dissemination. Such approval shall not be unreasonably withheld.
6. In the course of our work, we may develop forward-looking projections. It is understood that some assumptions employed in developing such projections will inevitably not

materialize, and unanticipated events and circumstances will occur; the actual results achieved over the projection period will therefore vary from our projections, and such variations may be material. Our reports will contain a statement to this effect.

7. We shall have no responsibility to update our reports for events and circumstances occurring after the date of our reports.

Kansas Lottery Gaming Facility Review Board

STAFF AGENDA MEMORANDUM

DATE OF MEETING: February 20, 2008

AGENDA ITEM: Discussion, consideration and possible action on retaining Probe Gaming Consultants as a Review Board consultant.

PRESENTER: Stephen Martino

ISSUE SUMMARY: During the December 20, 2007, meeting, the Lottery Gaming Facility Review Board commissioned KRGC staff to identify experts to consult the board in various matters in order to make an informed decision consistent with its charge under SB 66, the Kansas Expanded Lottery Act.

At the January 28 board meeting, staff received approval to contract, subject to state law and regulations, with William Eadington, Ph.D., to be a board consultant. Furthermore, staff indicated a desire to use Professor Eadington's knowledge and expertise in gaming consulting to educate and improve the identification of other members of the consulting team.

Probe Strategic Solutions, under principal consultants Walt Hawkins, John Mars, Chris Brogan, and in cooperation with Civic Economics and its principal Dan Houston would provide analysis of the ancillary and non-gaming development proposed by prospective managers of Kansas casinos.

Probe Strategic Solutions will review the feasibility and viability of non-gaming development within each proposal. Specifically, they will conduct an analysis of the manager's submitted impact statements, revise and adjust those findings based on their determination of the reasonableness of nongaming proposals and review the social impacts of the ancillary development proposed. Principals of Probe and Civic Economics will provide reports, testimony and other support necessary to the board for its consideration.

BOARD ACTION REQUIRED/REQUESTED: Authorize the executive director to contract with, subject to state law and regulations, Probe Strategic Solutions as a Review Board consultant.



Probe Strategic Solutions
Consulting Services
Review of Management Proposals
Non-Gaming Portion

Submitted to
Stephen Martino
Executive Director
Kansas Racing and Gaming Commission
700 SW Harrison, Suite 420
Topeka, KS 66603



Review of Proposals:

Ancillary and Non-Gaming Development Analysis

The Kansas Racing and Gaming Commission is preparing to choose consultants to assist the Review Board in selecting the casino manager in each of the in the four gaming zones. Probe Strategic Solutions submits itself for consideration for the consulting need number five (5) as outlined by the Kansas Lottery gaming Facility Review Board: *Ancillary and non-gaming development analysis*. To conduct this review, Probe Strategic Solutions will work with its partner and sub-contractor Civic Economics. Descriptions of Probe, and its subcontractor, along with the CV's of key personal are submitted as attachments to this proposal.

Preliminary Review

Probe Strategic Solutions partners have worked in destination and local gaming markets across the country. Utilizing the knowledge developed within the industry coupled publicly available comparative sources; Probe will provide expert review of Ancillary and Non-Gaming Development portion of the Managers Applications.

Deliverable: For each of the four gaming zones, Probe Strategic Solutions will create a point-by-point comparative analysis of the proposed amenities for each location, including the proposed facilities as well as revenue and expense projections, a description of the local market and availability of amenities proposed within the current market area. Current market data such as existing hotel revenue and occupancy statistics will be included in these reports.

Review of Proponent's Impact Statement

Civic Economics will review the economic impact statement provided with each Manager Application to identify and isolate, to the extent possible, the inputs and outputs associated with ancillary and non-gaming development.

Civic Economics will then analyze the connection between these inputs (items such as construction costs, revenues, units sold, etc.) and the associated outputs (items such as direct, indirect, and induced economic activity, employment, and wages). On the first review, Civic Economics will take at face value the projected inputs provided in the application, evaluating only the reasonableness of the projected economic impacts.

Deliverable: For each application, Civic Economics will provide a brief written assessment of the impact statement provided, with a more detailed discussion of impact projections that cannot be easily rectified with the inputs presented.

Adjusted Impact Analysis

Upon completion of the first analysis, Probe will provide Civic Economics with any adjusted inputs in keeping with Probe's professional expectations of actual revenue associated with the various non-gaming developments proposed. Civic Economics will then evaluate the likely economic impacts of those activities by utilizing an industry-standard economic impact model such as IMPlan or REMI.



Deliverable: For each application, Civic Economics will provide a brief written discussion of the variation between the proponent's impact statements and the findings of this analysis.

Review of Social Impacts

Civic Economics will further review the projected social impact of the project, again with specific emphasis on the impact of ancillary and non-gaming developments. Where necessary, Civic Economics will consult with local officials to clarify expected service costs.

Deliverable: For each application, Civic Economics will provide a brief written evaluation of the proponent's estimated social impacts.

Time Estimates:

Manager Application review, analysis, and reporting: 20 hours total time per Management Application.

Strategy recommendation to Kansas Lottery gaming Facility Review Board: We are currently estimating four days to travel and present strategy recommendations for three Partners.

Associated Costs

To review the 13 Manager Applications, professional service fees of \$35,000.

Consulting fee for in-person presentations of results and strategy recommendations to the board: \$12,000

Travel expenses are not included in fees. Client will be billed at actual cost based on a mutually agreed upon travel plan.

Availability:

Probe, its Partners, and sub-contractors have no scheduled conflicts with availability from May 2008 to September 2008

Disclosure of Conflicts of Interest.

Probe Strategic Solutions understands the current list of companies that have submitted casino management proposals in Kansas to be: Pinnacle, RED/Mohegan Tribe, NASCAR/Cordish, Sands, Golden Gaming, Penn National, Harrah's, Foxwoods/MGM Mirage, Binion Family Trust, Dodge City Resort and Gaming Co. and Butler National.

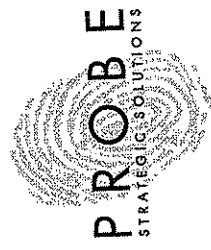
1. Are you working for or have you done work on a Kansas casino proposal?

Probe Strategic Solutions, its Partners, its partner companies and subcontractor Civic Economics have not completed any work on any Kansas casino Proposal.



2. Have you done any work on behalf of the parent companies of prospective Kansas casino managers in the past two years?
Probe Strategic Solutions, its Partners, its partner companies and subcontractor Civic Economics have not worked on behalf of the parent companies of prospective Kansas casino managers in the past two years.

3. Have you ever done any work on behalf of the parent companies of prospective Kansas casino managers?
Probe Strategic Solutions, its Partners, its partner companies and subcontractor Civic Economics have never worked on behalf of the parent companies of prospective Kansas casino managers in the past two years with the following exception. Probe Strategic Solution's Managing Partner, John Marz, was the owner of the advertising agency of record for MGM Grand Casino in Las Vegas from 1993-1998.



PROBE

In its original Latin form the word probe was "PROBARE" meaning to test. In the mid 17th century it became "PROBA" meaning proof.

It is also the root of the word "PROBABLY".

In the business world, sales and marketing professionals generally prefer "PROOF" that a concept will work and rarely want to hear the phrase, "that will PROBABLY work".

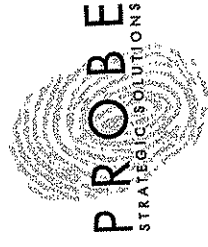
INTRODUCING PROBE STRATEGIC SOLUTIONS.

We are a full-service specialty-marketing firm that uses sound measurement techniques, combined with roughly 100 years of proven marketing expertise, to help our clients grow and prosper.

Our business is to remove the "probably" and give you plenty of the "proof". We are a team of seasoned marketing professionals fueled by a passion for research-driven strategies.

We are experts at probing. We are skilled at strategizing. And our specialty: delivering, less guess work. More yes work.

We call it INVESTIGATIVE MARKETING. And we apply it to a variety of important areas.



BRANDING

Much like a forensics expert looks at fingerprints and human DNA to solve a crime, Probe uses the human experience to fuel brand building. We use a proprietary brand audit process to understand emotions, experiences, needs and wants of a customer or product user. We are veterans at gathering insights and recommending strategies for weaving them in to a complete brand experience.

DATA COLLECTION

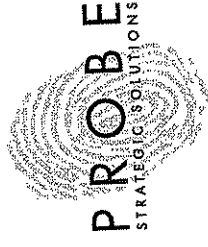
Our team of veteran researchers have built and managed hundreds of surveys, polls, focus groups and other primary and secondary research engagements. We find the data, we interpret the data, and we help guide our clients through the process of making the data meaningful and useful.

MARKETING COMMUNICATIONS

Armed with thorough insights about the customer and the marketplace, we help our clients develop effective sales and marketing campaigns. We outline customer touch points and recommend strategies for organizing and managing complete, integrated messaging.

OUR PRODUCTS

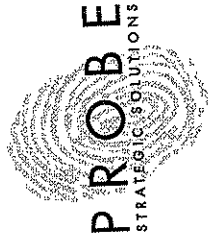
Polling • Online Surveys • Focus Groups • Brand Audits • Product Testing
Message Testing • Sales and Marketing Strategies • Communications Strategies



OUR TEAM

JOHN MARZ, Mr. Marz has over 30 years of senior executive and corporate level experience in marketing and advertising. John was Senior Vice President of Marketing and Events for Mandalay Resort Group, overseeing all marketing for a \$4.6 billion, 13-property destination entertainment company. He was over all branches of marketing, which included market communications, market research, database marketing and internet marketing. Mr. Marz was previously owner and president of DRGM Advertising & Public Relations in Las Vegas and Reno, where he built the second-largest ad agency in Nevada. He worked with gaming companies to strategize branding launches for MGM Grand and IGT's Megabucks. John has served as Commissioner of the Nevada Commission on Tourism where he oversaw the marketing committee.

WALT HAWKINS, Walt Hawkins recently retired from IGT, the worlds largest gaming machine and video lottery terminal provider. In his 25 years there he was amongst other things, responsible for the rollout and operations of the first wide area progressive program, then called Megabucks, now referred to as Megalackpots. More recently he was responsible for the identification and development of new market and business opportunities for the company. His primary focus was video lotteries and assisting part-mutuel locations in the development of alternative forms of wagering entertainment. Additionally, Walt helped develop and manage IGT's racing and gaming sales and operational efforts, as well as other related video lottery operations throughout North America in the Public Gaming division. Walt has a business degree from the University of Nevada, Reno.

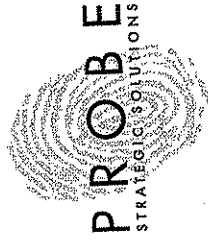


MARK HURST is a 30 year veteran of advertising and marketing. He owned and operated an ad agency in Salt Lake City for 20 years and sold it in 2000, to a Silicon Valley firm where he was involved in strategic brand planning for a variety of technology and business-to-business clients. He worked in the Bay area for 5 years becoming Director of Brand Planning for DDB, one of the largest agencies in the world and managed clients out of their San Francisco office.

Currently, he is living back in his home-town of Salt Lake City and manages that local office for Probe from there. He is engaged in the discovery and brand architecture planning for a variety of clients around the country.

CHRIS BROGAN, Mr. Brogan has over 13 years experience in marketing research providing-decision makers with the details and insight to take decisive marketing direction. Chris was Vice President of Strategy and Research for Fontainebleau Resorts (Las Vegas and Miami) and previously Vice President of Marketing Research of Mandalay Bay Resort Group. Prior to this he served as the Manager of Survey Operations for Abi Associates where he directed projects for the Centers for Disease Control and Prevention, The National Institutes of Health, and other government clients. Mr. Brogan began his research career at VNS where he created the National Voter Exit Poll Operations for ABC, AP, CBS, CNN, Fox and NBC. In this capacity, Mr. Brogan managed an operation that delivered same day results from over 1600 exit poll interview locations scattered throughout the U.S. on a typical national election day.

Mr. Brogan holds an M.B.A. from the Kellogg Graduate School of Management at Northwestern University and has dual degrees in Mathematical Methods in Social Science and Political Science, also from Northwestern University.



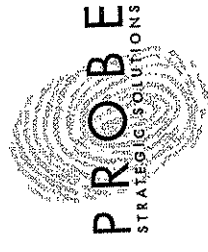
THIS TEAM of talented and experienced veterans have combined their collective skills into Probe Strategic Solutions and have been putting their combined 110 years of experience to work for a variety of clients around the country.

Research, branding, marketing and advertising, public relations, governmental relations and business consulting engagements have included:

Mandalay Bay Resort • MGM Grand • State of Utah Office of Tourism • CNN • Novell
Microsoft • Deloitte Consulting • Motor City Resort • Aristocrat • Hoosier Lottery • Scientific Games
Centers for Disease Control and Prevention • National Center for Health Statistics

Collectively we have worked with clients in a variety of vertical industries including:

Real Estate • Tourism and travel • Gaming • Banking • Public Policy • Technology
Non-Profit • Retail • Packaged Goods • Restaurants • Lottery



6600 Amelia Earhart, Suite C, Las Vegas, NV 89119 P 702.407.0453 F 702.896.2438

John F. Marz

2430 Greens Ave. • Henderson, NV 89014 • 702-632-7720 • jmarz@rognmail.com

SUMMARY:

Over 30 years of senior executive and corporate level experience in marketing, advertising and public relations. Proven ability to direct and implement highly successful strategic marketing plans that support organizational business and revenue goals, while maximizing brand integrity and consistency. Demonstrated success in directing outstanding advertising campaigns that satisfy client and corporate needs. Adept at directing divisions, departments, teams and projects. Accomplished in communication, complex problem solving, and strategic and tactical planning. Strong negotiator handling exclusive partner relationships. Team motivator.

PROFESSIONAL BACKGROUND:

Mandalay Resort Group, Las Vegas, NV

Senior Vice President, Marketing & Events (1998 – Present)

- Oversee all marketing activity for a \$4.6 billion, 13-property destination entertainment company which derives two-thirds of its revenue in the most competitive resort city in the world – Las Vegas.
- Developed and manage a highly effective corporate marketing staff including the disciplines of research, internet marketing, customer relationship marketing, and corporate and community relations.
- Successfully managed the transition of the company from primarily operationally driven, to marketing centric, resulting in improved property revenue through increased brand awareness and value which lead to significant room revenue increases.
- Directed the development of the Mandalay Bay brand which in just five years has become one of the most recognized resort brands in the world.
- Managed the successful marketing launch of the company's first multi-property player's club – One Club – including assisting in the strategic planning of the inaugural data warehouse and management and marketing system necessary for the success of One Club.
- Led the initiative to reduce the reliance on less profitable wholesale room sales company-wide by aggressively increasing property internet marketing initiatives and on-line distribution. This resulted in significant decreases in wholesale rated rooms while increasing internet booked room revenue year-over-year by an average of 125% for the past three years.
- Directed the successful repositioning of Luxor, Las Vegas from an "economy" brand to a premium mid-priced brand which, along with property enhancements, resulted in dramatic increases in repeat visitors, customer satisfaction, loyalty and value.
- Managed and implemented highly successful advertising campaigns for the launch of several company developments including Motor City Casino in Detroit, Gold Strike Hotel Casino in Tunica Mississippi, Mandalay Place – a unique shopping and dining experience in Las Vegas, and the very desirable all suite hotel at Mandalay Bay – THEhotel.
- Developed and managed new exclusive travel industry partner relationships which included of one-of-a-kind supplier models that reduced costs and increased market share and revenue.

DRGM Advertising, Las Vegas & Reno, NV

Owner, President (1976 – 1998) of Nevada's second largest advertising agency with billings in excess of \$50 million annually and a staff of nearly 100.

- Through hands-on supervision and nurturing, was integral in the growth of what became Nevada's second largest advertising agency, specializing in gaming, resorts, tourism, real estate development and banking.
- Directly responsible for the strategic planning, development, implementation and management of the agency's largest accounts including: MGM Grand – Las Vegas; the world's largest slot manufacturer – IGT; Summerlin; The West's largest master-planned community; and Valley Bank of Nevada (merged with Bank of America) among others.
- Led teams in the development and implementation of strategic marketing communication plans for the highly touted openings of MGM Grand in Las Vegas; Showboat in Atlantic City; Silver Legacy in Reno; Ramada Express in Laughlin; and Casino Niagra, Niagra Falls.
- Principally responsible for new business acquisition including the leadership and direction of agency teams in strategic and creative input for new client pitches.
- Managed all aspects of the daily operations of the agency.

Donrey Media - Reno Gazette Journal, KOLO Television, Reno, NV

Management Training/Sales Manager (1971 – 1976) for a multi-million dollar media company.

- Successfully developed media plans and promotional campaigns for clients.
- Responsible for client advertising plans and assisted in the formulation of creative concepts in a variety of industries.

Christopher Brogan

EXPERIENCE

2006 - Present

Probe Strategic Solutions, Las Vegas, NV and Austin, TX

Principal

Probe Strategic Solutions is a marketing consultancy, specializing in developing full service integrated marketing solutions for its clients. Based in Las Vegas, the company provides marketing strategy for destinations, resorts, real estate developments, professional services, and consumer products in local, regional, and national markets. As a Principal with the company, responsibilities include new business development, client management and executing consulting assignments.

Recent Clients and Projects:

- Morgan Stanley: Strategic marketing analysis and revenue projections for a privatization project.
- Washoe Tribe of Nevada: Feasibility analysis for a new resort casino on tribal land including size of potential casino, associated revenues, and their market sources.
- Hoosier Lottery: Strategic consulting on a variety of product introduction and product mix strategy initiatives.
- MotorCity Casino: Customer modeling and enhanced reporting for the casino's new CRM initiative. Created models used for scoring customers in order to adjust individual customer reinvestment in the casino loyalty program.
- MotorCity Casino: Conducted consumer decision process research. Results were used to determine the best mix of slot machine products and machine placement on the floor for a new casino, opening June 7, 2007.
- Silver Legacy Casino: Comprehensive review of the casino's customer loyalty program and CRM systems resulting in a proposal for a strategic change in the loyalty program structure.
- Silver Legacy Casino: Created a comprehensive customer satisfaction and profiling program.
- American Academy of Estate Planning Attorneys: Creation of a new Brand Identity Platform and Marketing Strategy based upon primary research with member attorneys and attorney clients.

2005 - 2006

Fontainebleau Resorts, Las Vegas, NV

Vice President, Strategic Planning and Research

Recruited to join the corporate marketing team at the launch of the company. Responsibilities included the design and implementation of a business intelligence system and a Customer Relationship Management program for a new luxury hospitality company. Fontainebleau Resorts was started by CEO Glenn Schaeffer at the conclusion of his tenure as CFO/President of Mandalay Resort Group. Fontainebleau Resorts will own and operate luxury hotels with flagships in Miami, Florida (scheduled opening 2008) and Las Vegas, Nevada (scheduled opening 2010) with a CRM program fully integrating marketing, operations, and finance.

Fontainebleau Projects:

- Market Selection: Worked with EVP for Development to determine market feasibility for expanding the Fontainebleau brand to other gaming and non-gaming hospitality markets.
- Brand Identity: Member of the team that created the brand identity for the re-launch of the Fontainebleau Brand. Responsible for primary customer research related to the project and vendor sourcing.
- CRM: Initial design of the business intelligence applications for a comprehensive CRM program that will allow management of properties by customer value in addition to traditional methods of managing by product and service profitability.
- Revenue Management: Oversaw revenue management for operating Fontainebleau Tower, the only operating unit of the company during the construction period.

Mandalay Resort Group, Las Vegas, NV

Vice President, Marketing Research

Responsibilities included the design and implementation of quantitative and qualitative research for all thirteen Mandalay Resort Group properties. Conducted annual, ad hoc, and event driven primary research to provide analysis and recommendations to support business decisions at both the corporate and property level. Routinely presented research results directly to senior corporate management.

Research projects designed, managed, and presented include:

- Brand identity and positioning projects.
- Conjoint studies to assess consumer preferences for price and brand attributes.
- Market segmentation studies using multivariate statistical analyses of survey research data.
- Market potential analysis for new casino and hotel properties using Huff gravity models for domestic and foreign locations.
- Analysis of marketing, CRM programs, and loyalty programs to determine financial risk and potential revenue return to the company.
- Internet based research to monitor awareness, satisfaction, and drivers of usage for the Mandalay Resort Group individual property websites, as well as the jointly owned destination web portal www.lasvegas.com.
- Hotel and convention pricing analysis to insure that proper yield management techniques are used to maximize revenue.
- Quarterly profiling of customers, as well as measurement of current satisfaction levels for all resort products.

1997 - 2000

Abt Associates Inc., Chicago, IL

Director, Data Collection

Abt Associates is one of the largest marketing research and consulting firms in the world, primarily serving government clients. Management responsibilities included Abt Associates' 153 station Chicago Telephone Center, Chicago Data Preparations Department, and all data collection vendors. Staff management included 40 full time staff in three locations, 330 part time interviewers, and clerical staff located in the Chicago Center. Responsibilities also included questionnaire development, implementation of a multiple site, single base CATI data collection system, interviewer training standardization, project budgets, production timetables and quality control.

Process Improvement Accomplishments

- Increased the production capacity of the Chicago Telephone Center by increasing the stations available from 90 to 153 over a two-month period.
- Reconstructed the interviewer wage rate to facilitate recruiting and decrease interviewer attrition.
- Identified and arranged contracts with vendors that increased production capacity by 125% with minimal capital investment required.
- Developed a comprehensive production database to monitor production and data quality across projects and data collection centers.

EDUCATION

M.B.A., Kellogg Graduate School of Management, Northwestern University. Evanston, IL 2006.
B.A., Honors Program in Mathematical Methods in the Social Sciences and Political Science, Northwestern University, Evanston, IL, 1990.



Matthew Cunningham

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Professional Experience

Civic Economics, Chicago, IL: July 2002 -Present

Partner

Founded Civic Economics, an economic development consulting firm, along with Dan Houston. Responsible for all phases of company operations including business development, financial management, project management, research, report writing, and presentations.

- Analyzed comparative economic impacts of various casino proposals in Waterloo, IA.
- Created a report highlighting costs to businesses and unintended consequences for a rise in the minimum wage in Santa Cruz, CA
- Analyzed economic impacts of big-box stores in Gunnison, CO and Homer, AK.
- Conducted analyses in Austin, TX and Chicago, IL, which analyzed economic impacts of locally owned retail establishments and their national chain competitors.
- Conducted an economic and fiscal impact for Opelousas, LA analyzing a Wal-Mart Distribution Center.
- Completed a one year contract from the Appalachian Regional Commission, a federal agency, to provide technical assistance to four communities: Brownsville, PA, Nelsonville, OH, and Sturgis and Okolona, MS.
- Performed an economic cluster analysis of Brownsville, TX border region for the Cross Border Institute of Regional Development department in the University of Texas.
- Created a target industry refinement study for Midland, TX and the Midland Development Corporation.

AngelouEconomics, Austin, TX: May 2001 – June 2002

Manager of Economic Research

Manager of economic research at AngelouEconomics, an economic development consulting firm specializing in high-tech industries for both the private and public sectors.

Texas Department of Economic Development, Austin, TX: April 1998 – May 2001

Manager of the Texas Business and Industry Data Center(June 2000 – May 2001)

Manager of the Texas Business and Industry Data Center responsible for supervising staff including two Sr. Information Specialists, a GIS/Database Analyst, a Reference Librarian, an International Research Specialist, and two Research Specialists.

GIS/Database Analyst(April 1998 -May 2000)
GIS/Database Analyst in the Texas Business and Industry Data Center.

Responsible for maintaining current knowledge of federal, state, local, private and international data sources and determining their relevance in research projects and data requests.

Education

University of Texas at Austin
School of Architecture, August 1995 -May 1998
Master of Science, Community and Regional Planning (MSCRP)

Binghamton University (State University of New York at Binghamton)
Harpur College of Arts and Sciences, August 1991 to May 1995
Bachelor of Arts, Major in Political Science

Professional and Technical Training:

- Microsoft Access-Intermediate and Advanced
- Getting Started with SAS Software: A Nonprogramming Approach
- SAS Programming I: Essentials
- ESRI's: Advanced ArcView
- Governor's Center for Management Training: Management Development Program (5 Days)
- Governor's Center for Management Training: Project Management
- REMI: Applications and Theory Seminar



Daniel B. Houston

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Austin, Texas 78765
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Professional Experience

Civic Economics, July 2002 to present

Since its founding, Dan has been a partner (with Matt Cunningham of Chicago) in the firm of Civic Economics. The firm has been engaged in a variety of economic analysis and strategic planning initiatives in 20 states from coast to coast. The firm combines rigorous data-driven analyses with substantial community engagement.

The firm provides businesses, communities, and civic organizations with creative tools to achieve sustainable prosperity. Civic Economics has gained wide notice for its innovative approach to economic development challenges, developing creative applications of conventional analytical methodologies. The work of the firm has been noted in a range of influential publications, including the New York Times, Boston Globe, Chicago Tribune, and San Francisco Chronicle.

Dan has also been a frequent and well-received speaker on economic development topics before students, professionals, civic leaders, and the general public.

Angelou Economics, 2000 to 2002

Prior to establishing Civic Economics, Dan served as Senior Project Manager for Angelou Economics, an Austin consultancy with a national client base in technology-led economic development. While there, Dan led strategic planning initiatives in communities as varied as Midland, Texas, Wenatchee, Washington, and New Orleans, Louisiana.

Earlier Professional Life

Before returning to school to study community and regional planning, Dan was an attorney licensed to practice in the State of Louisiana. Upon graduation from Tulane Law School, Dan moved to Simpson County, Mississippi to serve as an associate at the Community Law Office of the Mendenhall Ministries, practicing in the areas of civic rights and poverty law. He subsequently joined the New Orleans law firm of Gauthier & Murphy and began a lengthy involvement in MDL926, In Re: Silicone Gel Breast Implants. Dan's legal career culminated in service as Assistant to the Special Master in the largest multi-district litigation in American History.

Education

The University of Texas at Austin, School of Architecture
Community and Regional Planning Program
Completed coursework for MSCRP, 1999

Tulane Law School
Juris Doctor 1992

The University of Kansas
BA in Political Science, 1989

Personal

Dan Houston, a native of Tulsa, Oklahoma, has resided in Austin's Hyde Park neighborhood for 10 years, having previously lived in New Orleans and Cincinnati. He serves on the Board of the Jesuit Spirituality Center at St. Charles College in Grand Coteau, Louisiana, and has been active in a variety of professional, civic, and alumni organizations. He is an avid nonfiction reader and domestic traveler.



A PROFILE OF THE FIRM

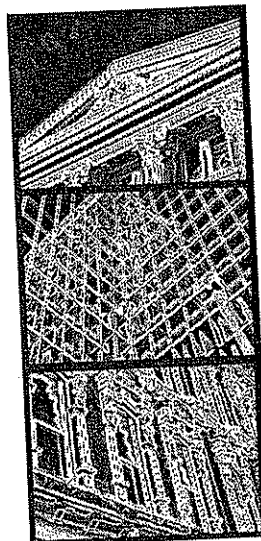
January 2008

INTRODUCTION TO CIVIC ECONOMICS

Civic Economics is an economic analysis and strategic planning consultancy with offices in Austin and Chicago. At Civic Economics, we believe that healthy, sustainable economies develop best in healthy communities. Consequently, we bring a holistic approach to our work.

CREATIVITY, OPPORTUNITY, & PROSPERITY

Sound like concepts your community or business could use? Civic Economics offers a full range of services from coast to coast.



For Government

Big cities and rural villages face new competitive pressures in the global economy. The era of "smokestack chasing" is over. Is your community equipped to build sustainable prosperity?

For Business

Businesses, too, must approach their work with a new rigor. Civic Economics will build upon your "back of the napkin" analysis to provide a sophisticated and compelling case for your evolving strategies.

For Civic Organizations

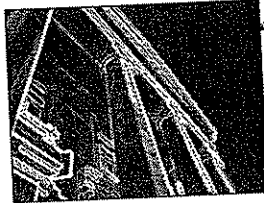
A wide array of civic organizations places a growing emphasis on accountability and sustainability. Civic Economics provides a thorough analytical framework for all their endeavors, offering guidance and information from a national perspective.

So whether you represent a government office, a business, or a civic organization, we can help. Our menu of services can be tailored to the needs of your organization. And, calling upon our network of highly regarded, specialized strategic partners, Civic Economics can serve as a one-stop-shop for all your analytical and planning needs.

LEARN MORE ABOUT CIVIC ECONOMICS:

THE CIVIC ECONOMICS DIFFERENCE	2
STRATEGIC PLANNING SERVICES	3
RESEARCH AND ANALYSIS SERVICES	4
RETAIL ECONOMICS	6
THE CIVIC ECONOMICS TEAM	8
STRATEGIC PARTNERS.....	10
ACCOMPLISHMENTS AND REFERENCES.....	11
CONTACT CIVIC ECONOMICS.....	21

THE CIVIC ECONOMICS DIFFERENCE



If you are like most of our readers, you have seen more consultants come and go than you care to count. You may even have a shelf full of boilerplate reports, gathering dust.

***Civic Economics is unlike any consultancy you've seen.
What makes us different?***

We build relationships and leverage them for the success of our clients.

We don't see competitors, we see potential partners. Our strategic partnerships allow us to call upon specialized expertise in facilities development, environmental protection, tourism, advertising, and sophisticated economic modeling.

We are as honest in our marketing as we are in our practice.

No bait and switch here. With Civic Economics, you meet the partners up front and you get the full attention of the partners throughout the process. We won't dispatch a rotating cast of rookies to take their practice swings in your community. And we won't mislead you about our capabilities and experience.

We apply our media savvy to enhance your prestige, not ours.

The partners of Civic Economics have become media favorites for our ability to provide concise, compelling statements on current issues in economic development. That gives us more opportunities to promote our clients and build support for their initiatives.

We take the long view of economic development.

Economic development too often moves from one magic potion to the next, with consultants selling identical approaches to competing communities. We call upon our encyclopedic knowledge of best and worst practices to sort through the snake oil and the latest fad theories to develop pragmatic solutions to your challenges.

We develop innovative strategies exclusively for you.

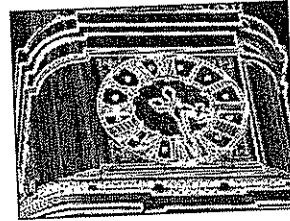
Your economic analysis and your strategic plan should belong to you. With Civic Economics, you know that it will not consist of recycled boilerplate and that it will not turn up in a report for our next client.

Contact the partners to learn how the Civic Economics difference can help your community, business, or civic organization.

STRATEGIC PLANNING SERVICES

Economic Development Strategic Planning for communities lies at the heart of Civic Economics' menu of services.

Economic development practice has long focused on industrial recruitment or "smokestack chasing." Today, though, the challenge is broader. Economic development organizations cannot afford to get sidetracked by fads and fashions. We provide a balanced, comprehensive approach to planning.



The Civic Economics planning process consists of four phases, widely adaptable to a variety of circumstances.

Orientation & Communications CivEc seeks to unleash the **CREATIVITY** within our client communities. The best ideas for economic development in a community reside there, so we question and we listen.

We work with our clients to organize a diverse and talented steering committee, seeking leadership from throughout the community. We build professional project websites and publications designed to facilitate ongoing communication. And we engage the community on its own terms, adapting proven facilitation methods to meetings with leaders, employers, and ordinary citizens wherever they gather.

Research & Discovery CivEc knows that the ultimate goal of any economic development initiative is **OPPORTUNITY**. We are planners who believe in planning, but we are also economists who believe in markets.

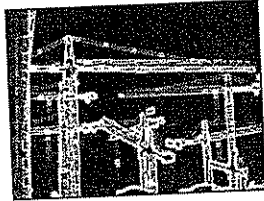
Civic Economics studies your community using the most sophisticated analytical tools available. Our proprietary industry cluster model provides a detailed look at the regional economy, and we apply a true shift-share analysis to place your community in a global context. We have developed an unmatched database of nationwide income migration. And our unique Foundation & Performance Assessment provides the most comprehensive look at your community in the past, present, and future.

Strategic Planning Formulation of the strategic plan is only the start. A Civic Economics plan lays the groundwork for sustainable **PROSPERITY** by focusing on implementation from the start.

A Civic Economics strategic plan provides a detailed roadmap for the future. We don't just leave you with a list of target industries, we tell you how to reach decision makers. Retention and expansion strategies focus on the needs of your existing business community, multiplying the circulation of money in the economy. Finally, in the belief that healthy communities build sustainable prosperity, we lay the groundwork for broader community asset enhancement.

Presentation & Implementation A Civic Economics strategic plan will be **ACCEPTED, EXCITING, AGGRESSIVE, & REALISTIC**. And we remain on your team long after any contract obligations, carrying your community flag in our professional travels and on-call to help with your implementation challenges.

RESEARCH AND ANALYSIS SERVICES



Civic Economics' economic and demographic analysis expertise is rooted in our extensive strategic planning background. Our economic and demographic analysis techniques and experience prove their worth in both public and private sector arenas, ranging from establishing prosperity and sustainability indicators to assessing the feasibility of real estate developments.

In the brief history of the firm, we have applied state of the art analytical tools to highlight issues and solutions surrounding a variety of problems.

Civic Economics was the first to apply income migration analysis in the Rio Grande Valley, which forms the southernmost border between Texas and Mexico. We discovered two parallel and disturbing trends and pointed to policy approaches to address these trends at both the highest and lowest income levels.

Civic Economics conceived and executed the widely cited Liveable City Study in Austin. Our analysis and public presentation resulted in the reversal of a multimillion-dollar public expenditure that would have yielded a substantial net loss in local economic impact. Following that study, local economic incentive policies have been revised to include consideration of external economic impacts.

Civic Economics can work with any community, business, or civic organization to formulate a customized research program.

RESEARCH • ANALYSIS

Civic Economics' research and analysis services don't stop at providing our clients with just the numbers. We bring to bear our considerable experience and critical thinking to create a rational, realistic, and credible assessment of the project or target market.

The Civic Economics partners have provided numerous studies covering a variety of issues to a diverse clientele, including commercial and residential developers, Fortune 500 technology firms, chambers of commerce, non-governmental organizations, and local and international governments.

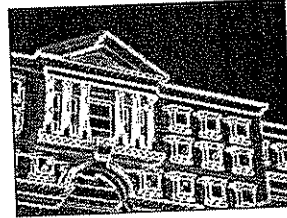
Civic Economics features the following research and analysis methodologies:

- Economic Impact Analysis* – Customizing applications of the IMPLAN® model
- Geographic Information Systems* – Presenting data in an intuitive format
- Income Migration Studies* – Tapping unique data from the IRS
- Industry Cluster Analysis* – Detailing the composition of the local economy
- Industry Shift-Share Analysis* – Placing the local economy in a global context
- Demographic Analysis* – Identifying trends and highlighting future needs
- Retail Market Studies* – Identifying market and public policy opportunities
- Economic Forecasts* – Preparing the community for the future
- Comparative Studies* – Tracking competitors and best practices
- Funding Source Research* – Matching programs with supportive funding sources

RESEARCH AND ANALYSIS SERVICES

BENCHMARKING • INDICATORS

Our partners, associates, and advisors have worked in communities large and small from coast to coast. This broad national and international experience provides us insight into determining the best use of data to measure your community or region's success.



Civic Economics recognizes the importance of and promotes the use of indicators and comparisons for providing a baseline to local and regional activities. We work closely with clients to fully understand their goals and help them uncover creative and accurate means for gauging progress.

Civic Economics offers customizable benchmarking and indicators, which can be applied to any number of comparison and competitor communities:

- Foundation & Performance Assessment* – Our signature approach
- SWOT Assessment* – Presenting Strengths, Weaknesses, Opportunities, Threats
- Performance Metrics* – Providing standards for future achievement
- Workforce Assessment* – Highlighting available skills and training requirements
- Infrastructure Assessment* – Prioritizing capital improvement projects
- Innovation Capacity* – Measuring capacity for technological leadership
- Quality of Life Indicators* – Assembling components of the healthy community
- Sustainability Indicators* – Focusing on the interests of future generations

FACILITATION • PRESENTATION

Civic Economics highly values close contact and collaboration with our clients. This approach gives us a unique ability to assist our clients in communicating their goals with the public, local media, or boards of directors.

We recognize that education is often half the battle in obtaining the freedom to pursue goals. No organization works in a vacuum, and Civic Economics helps our clients establish an environment that ensures buy-in from all relevant stakeholders.

Civic Economics offers a variety of facilitation and presentation services:

- Strategic Planning Workshops* – Building consensus in an accelerated fashion
- SWOT Sessions* – Highlighting strengths, weaknesses, opportunities, and threats
- Public Speaking* – Communicating for you and with you
- Board Retreats* – Bringing new members up to speed
- Promotional Materials* – Making ideas accessible
- Web Design and Content* – Carrying ideas to the world

The proven experience of Civic Economics' partners will provide your organization with the knowledge and confidence to turn your goals into milestones.

RETAIL ECONOMICS



Civic Economics is the acclaimed leader in understanding the economics of regional retail and service activities.

From its founding, the firm has focused on the critical and often misunderstood role of retail in economic development and urban planning policy.

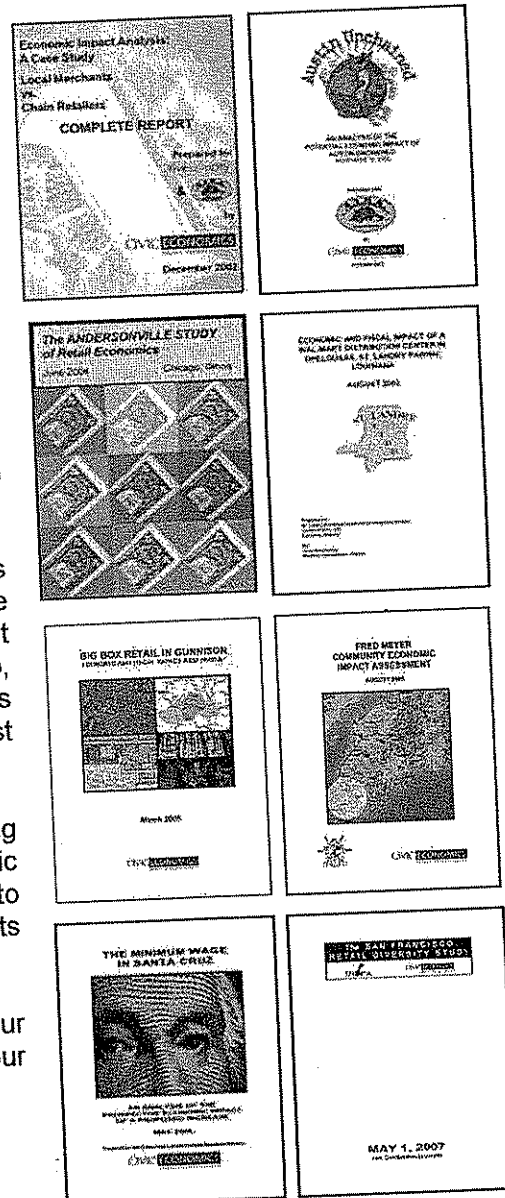
Commissions for independent research have provided the core knowledge base for what has come to be called "The Civic Economics of Retail." In contrast to our larger, convention-bound peers and academic researchers, Civic Economics has developed innovative methodologies for analyzing this unique industry sector.

Civic Economics analyzes the economics of retail and service provision using time-tested, industry standard approaches tailored to the needs and circumstances of each community. These include trade area analysis, demographic analysis, consumer and business surveys, retail prospect identification, retail gap analysis, adaptive reuse of mature retail centers, and economic and fiscal impact analysis.

More importantly, the partners of Civic Economics monitor the ever-evolving retail industry. We know where market forces are heading and what retailers are doing in response. We know, too, what other communities are doing, providing us with an unmatched knowledge of best and worst practices.

Retail development and redevelopment bring significant impacts to any community. Civic Economics provides communities with the tools to manage those impacts, magnifying the benefits and mitigating the challenges.

Contact us to learn how we can put our knowledge and our network to work for your community.



RETAIL ECONOMICS

Civic Economics has provided information, analysis, and counsel to dozens of businesses, communities, and civic organizations in the U.S. and Canada. Our work has been cited in countless media outlets, from the biggest of big city dailies to smallest of small town weeklies, and numerous influential blogs. Our studies have even appeared in the curriculum of some of America's most prestigious planning schools.

Highly Focused Analyses

In partnership with our friends at the American Booksellers Association, Civic Economics has begun offering to replicate key portions of previous studies at affordable rates in communities for which our services were previously out of reach. Contact us to learn more about these services.

Speaking Engagements

If you don't need or can't fund a study crafted for your community, Civic Economics can still help. We provide presentations and policy briefings designed to educate planning professionals, elected officials, and the public at large. In addition, we offer a reduced fee for selected non-profit organizations, bringing the Civic Economics of Retail within reach of every community.

A few of these events have included:

- BookExpo America, Los Angeles and Chicago
- American Booksellers Association, Austin, Portland, and Chicago
- Oregon Downtown Association, Portland
- Business Alliance for Local Living Economies, Vancouver
- The Green Tech U program of the City of Chicago
- Sustainable Wisconsin, Madison
- Texas Leadership Institute
- Atlanta Regional Commission
- Growth Forum, University of Texas School of Architecture

The Civic Economics of Retail: The Book



Civic Economics' retail studies are so often requested and downloaded, we decided to make them available in a bound version.

Version 2.0 includes studies from Austin, Chicago, Gunnison, and Homer.

The Book, Version 3.0, including recent work from Santa Cruz and San Francisco, will be available from Café Press in June of 2007.

BIOGRAPHIES OF THE TEAM

The partners of Civic Economics are proud of their professional accomplishments. Together, we bring a diverse set of talents to bear in support of the firm's clients.

Matt Cunningham, Partner



Based in Chicago, Matt Cunningham leads the firm's research and analysis efforts. He brings to our clients a wealth of specialized research tools and knowledge of best practices. Before establishing Civic Economics, Matt served Angelou Economics as Research Manager performing economic impact studies for real estate projects and complete economic, demographic, and land use analyses for economic development projects. In addition, he brings specialized software expertise in Geographic Information Systems (GIS), the Regional Economic Model Inc. (REMI), and IMPLAN.

Matt formerly oversaw the Texas Business and Industry Data Center (BIDC) for the Texas Department of Economic Development, which focused on analysis and dissemination of economic data. The BIDC served as the research hub of the state's economic development agency. Clients were drawn from a wide variety of sources and included both public and private associations in addition to the Texas Legislature and media.

Formerly, as a GIS (Geographic Information Systems)/Database Analyst, Matt worked with Texas communities, businesses, Legislature, and media by creating, distributing, and analyzing data with the use of database and GIS software.

Matt earned a M.S. in Community and Regional Planning from the University of Texas at Austin and a B.A. in Political Science from Binghamton University in Binghamton, New York. Matt and his wife, urban designer Leslie Oberholtzer, reside in the Andersonville section of Chicago.

Contact Mr. Cunningham at mattc@CivicEconomics.com.

Dan Houston, Partner



Dan Houston, based in Austin, is a leading proponent of progressive economic development practices. His firm, Civic Economics provides businesses, communities, and civic organizations with creative tools to achieve sustainable prosperity. The young firm has gained wide notice for its innovative approach to economic challenges and its dedication to citizen engagement.

Dan has led strategic planning initiatives in cities as diverse as Midland, Texas, New Orleans, Louisiana, Wenatchee, Washington, and Brownsville, Pennsylvania. Dan is also a frequent speaker before students, the public, and seasoned professionals, addressing themes of economic and community development.

Before establishing Civic Economics with partner Matt Cunningham, Dan served as Senior Project Manager for Angelou Economics, a firm focused on technology-led economic development. There, he led strategic planning initiatives for the firm's community clients in addition to site selection, real estate, and development analyses.

A native of Tulsa, Dan is a graduate of the University of Kansas and Tulane Law School. As an attorney, Dan practiced in the areas of poverty law and mass torts, eventually serving as Assistant Special Master for Appeals in the largest multi-district litigation in American history. At the age of 30, he left the law to pursue a Master's Degree in Community and Regional Planning at the University of Texas at Austin, with an emphasis in economic and real estate development. Dan resides in the Hyde Park section of Austin.

Contact Mr. Houston at dhouston@CivicEconomics.com.

STRATEGIC PARTNERS

At Civic Economics, we realize that we cannot possibly address all of our client's needs in-house, and we do not pretend that we can.

Calling upon our network of highly respected, specialized strategic partners, however, we are able to serve as a one-stop shop for all of your economic analysis and strategic planning needs. A few of the leading firms with which we've worked include:

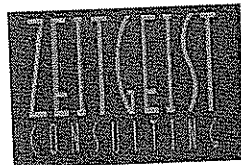
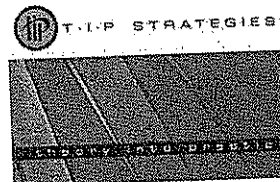
Interface Studio of Philadelphia is a creative, collaborative urban design and planning office. Visit Interface-Studio.com for more.

Zehnder Communications of New Orleans is a leading Southern advertising and marketing shop. Visit ZComm.com for more.



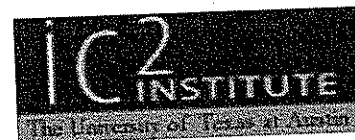
Probe Strategic Solutions is a full-service specialty-marketing firm that uses sound measurement techniques, combined with proven marketing expertise, to help our clients grow and prosper.

TIP Strategies is an economic development consulting firm based in Austin. Visit TIPStrategies.com for more.



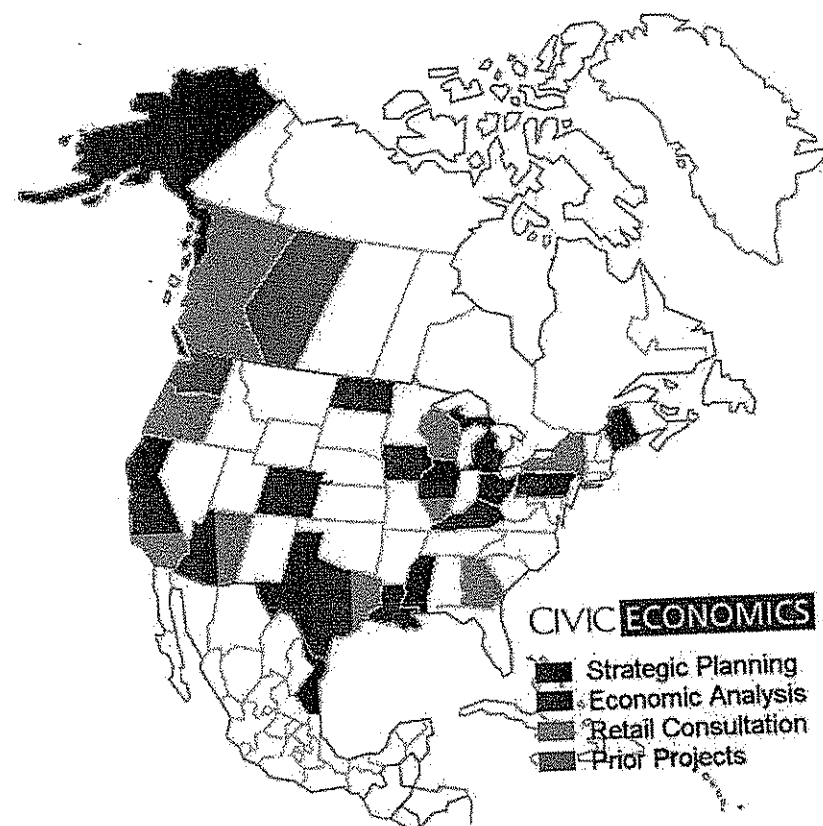
Zeitgeist Consulting is a Madison, Wisconsin-based visitor industry consultancy. Zeitgeist is the recognized leader in destination marketing. Visit ZGeist.com for more.

IC² Institute of the University of Texas at Austin is an interdisciplinary "think-and-do tank" focused on the nexus between innovation, creativity, and capital. Visit IC2.org for more.



So, however complex your needs, Civic Economics can serve as your gateway to world-class consulting services.

ACCOMPLISHMENTS & REFERENCES



Civic Economics maintains a national practice in economic analysis and strategic planning. This expansive approach exposes us to best and worst practices, regional variations, and economic trends from coast to coast.

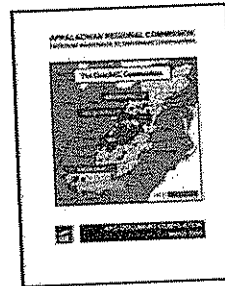
Even if we've never worked in your state or community, we've been nearby. There is a good chance we've followed developments there and studied your regional economy.

Civic Economics is proud of our diverse client base, including repeat business. Let us put this varied experience to work for you.

SELECTED PROJECTS FOR CIVIC ECONOMICS

Appalachian Mississippi, Ohio, and Pennsylvania Technical Assistance to Distressed Communities

In the first major strategic planning initiative conducted by Civic Economics, the firm was retained by the Appalachian Regional Commission (ARC) to provide a variety of services to distressed communities throughout the region. While the initial contract called for work in only two communities in Ohio and Pennsylvania, our early successes and community engagement prompted an expansion of our contract to include two additional communities in Mississippi. All four initiatives were completed in March of 2004.

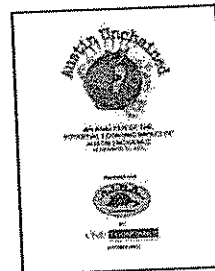


Contact John Cartwright, Director of Regional Planning, ARC
202.884.7709 or jcartwright@arc.org

Austin, Texas

Austin Unchained Impact Analysis

Civic Economics provided the Austin Independent Business Alliance with research, analysis, and community education services in connection with the Austin Unchained event in November 2003. Our analysis revealed that a fully successful event would generate a local economic impact of as much as \$14 Million. Building on our work, the AIBA and several of its business members received positive earned media in a wide variety of media, including newspapers, radio, and television. In addition, the analysis generated industry-specific coverage in targeted publications such as Billboard, Publishers Weekly, and Bookselling This Week.



Contact Steve Bercu, President, Austin Independent Business Alliance
512.472.4342 or steve@BookPeople.com

Austin, Texas

Public Utility Commission Expert Testimony

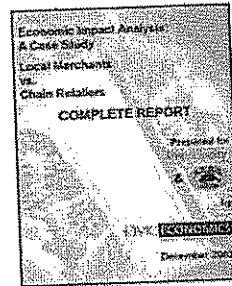
Matt Cunningham and Civic Economics were retained by an ad hoc association of large commercial users of electricity to evaluate the regional impact of a requested rate surcharge of \$2.4 Billion over 15 years and testify before the Texas Public Utility Commission regarding the findings. The proposed surcharge fell differently on each class of ratepayers across a 44 county area of South Texas, requiring a complex analysis of impacts on households by income, businesses by size and type, and industrial adaptation to the charge. Civic Economics completed the study in within five weeks of retention and Mr. Cunningham provided written and oral testimony before the Commission. Decision pending as of October 2005.

Contact Jim Boyle, Law Offices of Jim Boyle
512.474.1492 or jboyle@jimboylelaw.com

Austin, Texas

Economic Impact of Local Merchants and Chain Retailers

In partnership with the Austin Independent Business Alliance and Liveable City, Civic Economics conceived and executed this innovative and influential study quantifying the economic importance of locally owned merchants. The analysis demonstrated that locally owned merchants generate more than three times the local economic activity of their competitor chain stores on equal revenue. Countless media sources, civic organizations, and government bodies throughout North America have cited "the study that started a movement." In addition, the study earned extensive positive media for our business clients, leading directly to increased sales and policy influence.

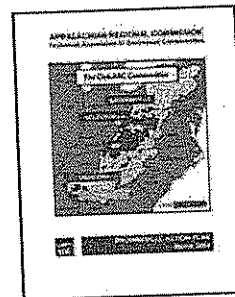


Contact Bill Spellman, LBJ School of Public Affairs
512.471.8953 or spelman@mail.utexas.edu

Brownsville, Pennsylvania

Technical Assistance for Distressed Communities

Civic Economics worked with the citizens of this Monongahela Valley city in a strategic planning effort of broad scope. Leadership development, organizational capacity, and community engagement led to the acquisition of an anchor building in the historic downtown area and its development into a business incubator, youth entrepreneurship center, and community meeting hall. Implementation of the plan has been fully funded with the direct involvement of the Governor. Our work was funded under contract to the Appalachian Regional Commission.

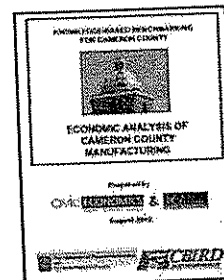


Contact Honorable Norma Ryan, Mayor of the Borough of Brownsville
724.785.3363 or njr@excite.com

Brownsville, Texas and Matamoros, Tamaulipas

Economic Analysis of Cameron County Enterprises

Civic Economics provided the Cross Border Institute for Regional Development and IC² Institute of the University of Texas with an analysis of the economic forces at work in the bi-national Brownsville/Matamoros region. Utilizing our proprietary industry cluster model, Civic Economics analyzed location quotients and shift-share components across industries, then provided extensive analysis of the Health Services, Manufacturing, and Transportation & Logistics sectors. In addition, we provided a detailed study of household and income migration using a massive and little used database of Internal Revenue Service data.

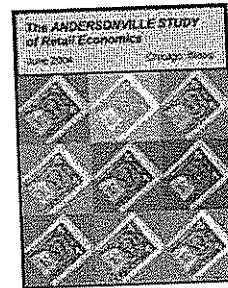


Contact Dr. David V. Gibson, IC2 Institute of the University of Texas at Austin
512.475.8941 or davidg@icc.utexas.edu

Chicago, Illinois

Andersonville Chamber of Commerce Retail Study

Civic Economics and the Andersonville Chamber of Commerce released the Andersonville Study of Retail Economics at two packed events on October 20, 2004. The Andersonville Study evaluated the economic impact of ten locally owned firms doing business on Chicago's Clark Street in Andersonville, and gauged the impact on the community if those firms were replaced by competitor chains. The extensive data collected allowed our analysis to further evaluate economic impact per square foot and by sector (retail, restaurant, or service provision). Visit AndersonvilleStudy.com to learn more.



Contact Ellen Shepard, Andersonville Chamber of Commerce
773.728.2995 or eshepard@andersonville.org

Chicago, Illinois

Wicker Park/Bucktown Strategic Plan

Interface Studio of Philadelphia and Civic Economics have been selected by Special Service Area #33 to prepare a comprehensive plan for a large and diverse section of the City of Chicago. Civic Economics will prepare the economic and community development portions of the plan.

Devils Lake, North Dakota

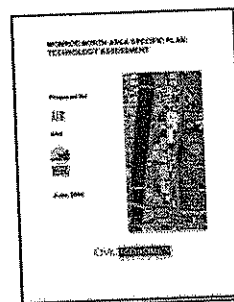
Large Format Retail Ordinance

Civic Economics was been retained by a coalition of businesses in Devils Lake, North Dakota to assist in drafting an ordinance for the regulation of retail development in the community. During the process, participating firms temporarily suspended these efforts in anticipation of changes in local political leadership.

Grand Rapids, Michigan

SmartZone Infrastructure and Built Environment Needs Assessment

The Grand Rapids SmartZone, anchored by the Van Andel Research Institute and Grand Valley State University, retained JJR and Civic Economics to plan for continued growth in the riverfront district called Monroe North. Civic Economics conducted interviews with public officials and select technology-driven firms, both startups and established firms developing new markets, in order to identify the essential infrastructure and land use needs of these businesses.



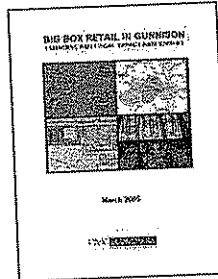
Contact Connie Dimond, JJR
734.669.2765 or Connie.Dimond@jjr-us.com

Grand Rapids, Michigan
The Grand Rapids Retail Study

With funds provided by the Steelcase Foundation, Grand Rapids' Local First has retained Civic Economics to prepare a comprehensive analysis of the economics of retail and service provision in Grand Rapids and Kent County, Michigan. The study will take place in two phases. The first, an analysis of market shares in selected sectors, will occur in the fall of 2007. The second, an analysis of the economic impact of merchants in those sectors and a guide for public policy considerations, will take place in early 2008.

Gunnison, Colorado
Big Box Retail Impact Study

The City of Gunnison, Colorado faced uncertainty and acrimonious debate as major changes in the local retail market became a near term possibility in this small mountain community. The City selected Civic Economics to analyze the economic and fiscal impacts of big box retail with a particular emphasis on supercenters with both grocery and general merchandise product lines. Working with a twelve person steering committee and city staff, the firm conducted a retail preferences survey with nearly 1200 responses, modeled the local economy, and evaluated prospective impacts on employment, wages, and public revenue. Moreover, the firm provided the city with the complete model, annotated and updateable, to allow future analyses to be performed in-house.



Contact Steve Westbay, Director of Community Development
970.641.8152 or swestbay@cityofgunnison-co.gov

Highland Heights, Kentucky, and Unnamed Midwestern State
General Cable Corporation

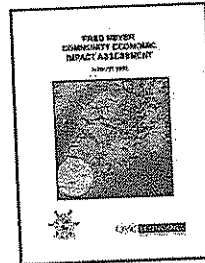
General Cable faced a problem: expansion of a Midwestern manufacturing plant was stalled by uncertainty about state incentives. The company, which has been at the forefront of communications technology since 1844, turned to Civic Economics for guidance. With a 48-hour turnaround, we prepared an analysis of state incentive programs and their applicability to company plans. Armed with accurate information, the company and local officials quickly got the project back on track, promising new investment and jobs in a distressed community.



Contact Peter Johansen, Finance Manager, North American Operations
pjohansen@generalcable.com

Homer, Alaska Retail Community and Economic Impact Study

In recent years, a number of communities have passed ordinances requiring developers of large retail projects to fund community impact studies of the sort pioneered by Civic Economics. The first to contract for such a study was Homer, Alaska on the Kenai Peninsula, where the westernmost road in North America meets the sea. Civic Economics modeled the Homer retail market and forecast economic and fiscal impacts related to the development of a "superstore" retailer proposed for the community. The study was completed in a period of only 10 weeks.



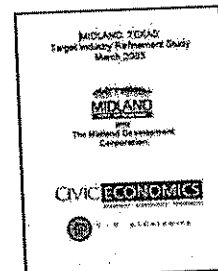
Contact Beth McKibben, City Planner for the City of Homer
907.235.3106 or bmckibben@ci.homer.ak.us

Maine Retail Legislation Implementation Guidebook for Communities

A coalition of Maine organizations has retained Civic Economics to prepare a guidebook for communities implementing the state's innovative Informed Growth Act. The IGA, which goes into effect in September of 2007, requires, independent, developer-funded comprehensive impact studies for all new retail establishments over 75,000 square feet. The guidebook will provide communities with an overview of the legislation and provide a model for the required impact studies. The guidebook will be available from the State Planning Office in September of 2007.

Midland, Texas Target Industry Refinement Study

In association with TIP Strategies, Civic Economics provided the Midland Development Corporation with an update and refinement of target industries. This study was designed to build upon the success of the Midland Assessment and Action Plan (MAAP), led by Dan Houston when employed with his previous firm. As a result of the MAAP, Midlanders approved a .25% sales tax devoted to economic development and created the Midland Development Corporation, which has made great strides in implementing and further refining the MAAP strategic plan.

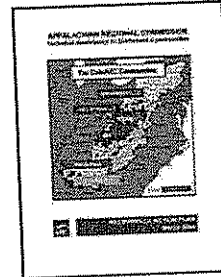


Contact Dennis Clayton, Director, Monahans EDC
432.686.7315 or monahansedc@Monahans.org

Nelsonville, Ohio

Technical Assistance for Distressed Communities

Civic Economics worked with the citizens of this Appalachian Ohio college town to strengthen town-gown relationships and execute a project with wide community support. With strong support from the State and local foundations, Nelsonville is in the process of restoring its historic City Hall as a visitor center and museum of industry. Our work was funded under contract to the Appalachian Regional Commission.

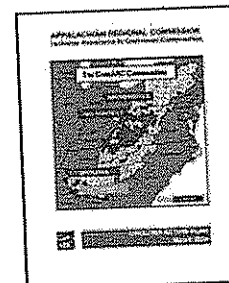


Contact Judy Sinnott, Public Information Director, Hocking College
740.753.7008 or sinnott_j@hocking.edu

Okolona, Mississippi

Technical Assistance for Distressed Communities

Civic Economics worked with the citizens of this small community to heal race and class relations by organizing and guiding a local leadership team in the revitalization of the historic campus of Okolona College. The initiative required the cooperation of multiple organizations and individuals in this often divided community. In addition, we called on regional support and expertise from colleges and universities, elected officials, and professional service providers. Our work was funded under contract to the Appalachian Regional Commission.

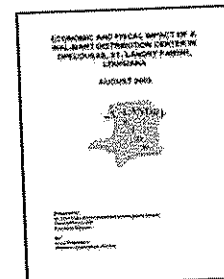


Contact Patsy Gregory, President, Okolona Chamber of Commerce
662.447.5913 or patsy@okolona.org

Opelousas, St. Landry Parish, Louisiana

Economic and Fiscal Impact Analysis of a Regional Distribution Center

The St. Landry Economic Industrial Development District retained Civic Economics to analyze and forecast the economic and fiscal impacts of a regional Wal-Mart distribution center. Our analysis demonstrated that this single facility directly and indirectly generates 8.5% of all wage employment in the Parish, and 12% of all wages.

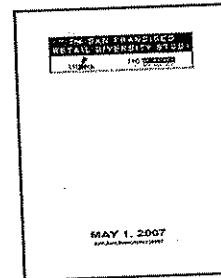


Civic Economics has been retained to conduct an updated impact analysis in February of 2007.

Contact Gerard Perron, Executive Director, SLEIDD
337.948.1391 or sleidd@bellsouth.net

San Francisco, California
Retail Diversity and Impact Study

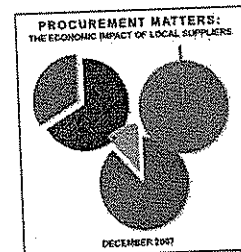
Civic Economics was retained by the San Francisco Locally Owned Merchants Association and the Northern California Independent Booksellers Association to create a detailed analysis of retail sales, market shares, and business distribution across five retail sectors. The study provided to provide the first comprehensive, regional picture of the changing retail environment for both independents and chains. The study further quantified the economic impacts of retailers in each sector. *The San Francisco Retail Diversity and Impact Study* was released in May 2007.



Contact Hut Landon, Executive Director
Northern California Independent Booksellers Association
415.561.7687 or office@nciba.com

Tempe, Arizona
Public Procurement Impact Analysis

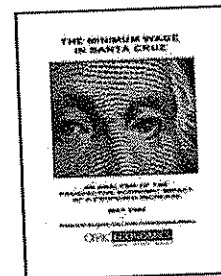
Civic Economics was retained by Local First Arizona and a large, locally-owned distributor of goods and services to analyze the economic impact of recent state procurement decisions that replaced local suppliers with non-local suppliers. As with related studies of retail economics, the findings were striking. Locally-based suppliers produce local economic impacts three times greater than non-local competitors as a function of revenue. The complete study is available at: www.civiceconomics.com/procurement



Contact Heather Rodriguez, Business Development Manager, Wist Office Products
480.921.2900 or hrodriguez@wist.com

Santa Cruz, California
Municipal Minimum Wage Increase Analysis

Civic Economics was retained by the Santa Cruz Locally Owned Business Alliance to analyze the economic impact of a proposed increase in the minimum wage paid to employees within the City of Santa Cruz. The study, completed in May of 2006, quantified the cost to local employers of the proposed wage increase and explored the full range of adaptations businesses would likely pursue in accommodating the changing labor cost environment. The citizens of Santa Cruz voted overwhelmingly to reject the proposal in November of 2006.

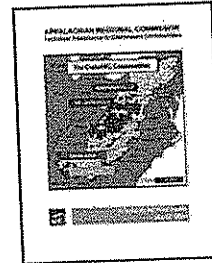


Contact Kris Reyes, Community Relations Director, Santa Cruz Seaside Company
831.460.3345 or pr@scseaside.com

Sturgis, Mississippi

Technical Assistance for Distressed Communities

Civic Economics worked with this dynamic community to lay the groundwork for the development of an arena and community building capable of hosting the large events already drawn to Sturgis. We provided the community with a detailed implementation plan, including building specifications, cost estimates, and a comprehensive funding plan. Our work was funded under contract to the Appalachian Regional Commission.

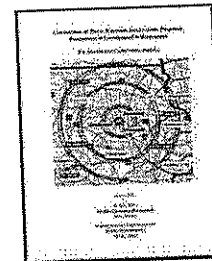


Contact Honorable Scott Smith, Mayor of the City of Sturgis
662.465.7970 or sturgismayor@yahoo.com

Waterloo, Iowa

Casino Economic Impact Study

The Greater Cedar Valley Alliance, the regional economic development organization for Waterloo and Cedar Falls, retained the team of Civic Economics and Wells Gaming to evaluate the prospective impact of competing casino proposals for the region. Wells Gaming began by evaluating the complete proposals of three proposed casino developments and forecasting activity to be generated by each. Civic Economics then modeled the Waterloo-Cedar Falls regional economy and evaluated the economic and fiscal impact of each proposal. Armed with this comprehensive evaluation of the choices facing the community, the Cedar Valley Alliance was able to endorse two of the three proposals for approval by the Iowa Racing Commission.



Contact Steven Dust, President and CEO of The GCVA
319.232.1167 or dust@cedarvalleyalliance.com

SELECTED PROJECTS PRIOR TO CIVIC ECONOMICS

United States and Canadian Communities

North American Site Review for a 300mm Semiconductor Fabrication Facility
Dan Houston, Project Manager, Angelou Economics

Alberta, Canada

Feasibility Study for a trade development office of Alberta Economic Development in Houston, Texas
Dan Houston, Project Manager, Angelou Economics

Austin, Texas

Economic Impact of Texas Longhorn Football
Matt Cunningham, Research Manager, Angelou Economics

Midland, Texas, Midland Chamber of Commerce

Midland Assessment and Action Plan
Dan Houston, Project Manager, Angelou Economics

New Orleans, Louisiana, Office of the Mayor

TechVision 2020
Dan Houston, Project Manager, Angelou Economics

Paraña State, Brazil

Technology-Based Strategic Plan
Dan Houston, Project Manager, Angelou Economics

Seguin, Texas, City of Seguin

Feasibility Study of Military Aviation Facility Conversion
Dan Houston, Project Manager and Matt Cunningham, Analyst, Angelou Economics

State of Texas

Highlights of Texas Exports Publication, 1999
Matt Cunningham, Manager, Texas Business and Industry Data Center

Wenatchee and surrounding region, Washington State

Economic Development Strategic Plan
Dan Houston, Project Manager, Angelou Economics

Williamson County, Texas

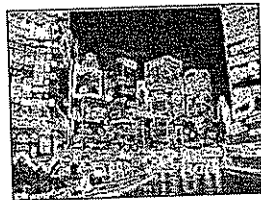
Conference Center Feasibility Study
Matt Cunningham, Research Manager, Angelou Economics

CONTACT CIVIC ECONOMICS



AUSTIN
Post Office Box 49061
Austin, Texas 78765

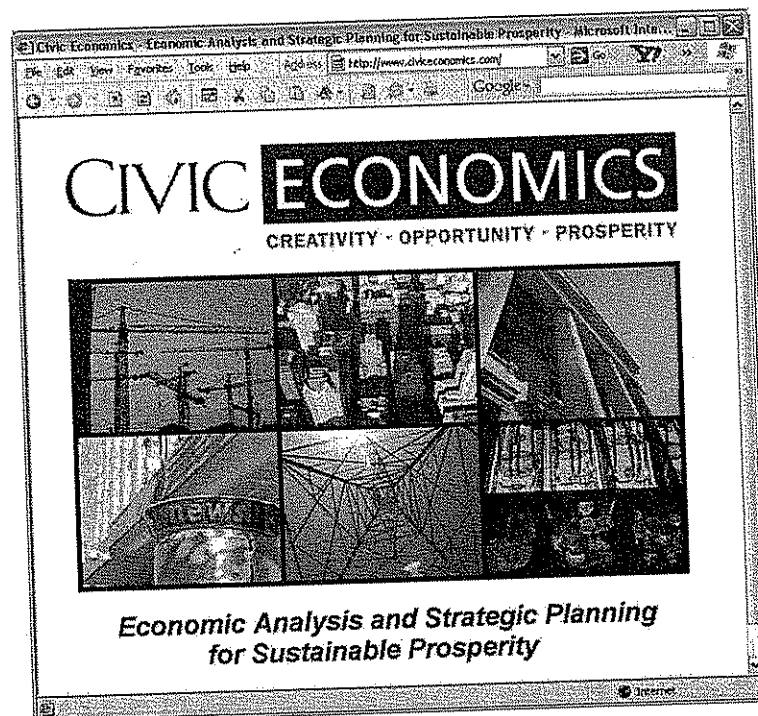
Dan Houston
512.853.9044
dhouston@CivicEconomics.com



CHICAGO
1425 West Summerdale Avenue, #3A
Chicago, Illinois 60640

Matt Cunningham
773.251.5926
mattc@CivicEconomics.com

Please visit us online at www.CivicEconomics.com:



Kansas Lottery Gaming Facility Review Board

STAFF AGENDA MEMORANDUM

DATE OF MEETING: February 20, 2008

AGENDA ITEM: Discussion, consideration and possible action on retaining James Proctor as a Review Board consultant.

PRESENTER: Stephen Martino

ISSUE SUMMARY: During the December 20, 2007, meeting, the Lottery Gaming Facility Review Board commissioned KRGC staff to identify experts to consult the board in various matters in order to make an informed decision consistent with its charge under SB 66, the Kansas Expanded Lottery Act.

At the January 28 board meeting, staff received approval to contract, subject to state law and regulations, with William Eadington, Ph.D., to be a board consultant. Furthermore, staff indicated a desire to use Professor Eadington's knowledge and expertise in gaming consulting to educate and improve the identification of other members of the consulting team.

James Proctor has more than two decades of experience in the review and regulation of public utilities in Kansas and the Midwest. His task for the Review Board would be to conduct financial suitability and stability reviews of the proposed management firms. Mr. Proctor would be responsible for gathering and analyzing information to allow the board to determine if the financial model and projections of the proposed manager are sound and whether the proposal is economically feasible given the applicant's financial standing.

Mr. Proctor would report these findings to the Review Board and provide any reports and other information to the Board as necessary or required regarding the financial viability of each applicant.

BOARD ACTION REQUIRED/REQUESTED: Authorize the executive director to contract with, subject to state law and regulations, James Proctor as a Review Board consultant.

To: Mr. Stephen Martino
Executive Director
Kansas Racing and Gaming Commission
700 SW Harrison, Suite 420
Topeka, Kansas 66603
(785) 296-5800

From: James M. Proctor
Principal
James Proctor Consulting Services
5245 Overland Drive, Suite D-6
Lawrence, Kansas 66049
(785) 841-7165

Date: January 15, 2008

Re: Consulting Services for Kansas Lottery Gaming Facility Review Board Concerning
Selection of Casino Management Firms

A. Scope of Consulting Work

Provision of Services

An important factor in providing consulting service on behalf of the Kansas Lottery Gaming Facility Review Board ("Review Board") should be to communicate the goals, objectives and status of the investigation throughout the engagement. The first step is to conduct a comprehensive discussion with the Review Board concerning the scope of the work and unique aspects of the engagement and to clearly establish expectations so there is no misunderstanding regarding the work product.

Periodic status reports should be provided as needed, subject to the Review Board's preference as to whether such reports should be formal or informal. Given the short investigative period, it will be important to prepare and receive responses to financial and structural information requests early in the process in order to allow adequate time for all potential issues to be addressed thoroughly. Once these initial responses are evaluated, unique research areas may be identified and highlighted for further intensive review.

Open communication with the potential casino management firms is important in order to obtain information necessary to achieve the overall project objectives. This communication would include establishing deadlines and questions concerning the project. The consultant should

evaluate the desirability of conducting meetings with the management firm's subject matter experts.

Once potential findings or recommendations are developed, they should be presented to the Review Board, or its representatives, prior to drafting reports, initial testimony and exhibits.

Financial Analysis

Framework for Financial Analysis: My analysis of the casino management applicants involves examining their financial condition on a going concern basis. Such examination should include a review of each firm's income statements, balance sheets and cash flow statements on an historical and projected basis. Further, the investigation should include a thorough review and analysis of the consolidated corporate structure of each firm and whether corporate structure negatively affects the financial viability of the management firm responsible for managing the casinos. I must have access to all necessary information, on a timely basis, about the consolidated corporate structure of each candidate regardless of whether the management firm is funded by private or public equity.

Evaluation of Financial Ratios: Generally, the financial viability of a firm is closely tied to the financial risk of its debt obligations and operational risk of the consolidated businesses. Bond ratings agencies base relevant analysis on several financial and operational factors and statistics. These factors and statistics relate to measurement of cash flow, liquidity, capital structure, industry risk, specific firm risk, and other financial and operating characteristics. The rating agencies use all of these measurements to assign a specific rating to a company. Similarly, here the analysis of each management firm should include such review of consolidated and unconsolidated financial statements and all material amounts of privately or publicly funded debt and privately or publicly funded equity.

I would complete certain ratio analyses, on an annual basis, of each firm's historic and forecasted financial statements. The financial data used for my analysis must be provided to me by each casino management firm on a timely basis. Specifically, each firm must provide any supporting material deemed relevant, by me, regarding historical and forecasted (1) Balance Sheets, (2) Statements of Income, and (3) Statements of Cash Flow for consolidated or separate entities. My analysis of each firm's historical and forecasted financial statements includes use of (1) cash flow ratios, (2) capital structure and leverage ratios, and (3) profitability and coverage ratios.

As implied above, a firm's profitability, financial leverage and cash flow are important factors for determining its financial viability and creditworthiness. Financial ratio analysis is a technique often used to evaluate these factors. However, the value placed on information derived from financial ratio analysis is strictly dependent on the credibility of the data input to the analysis. Also, financial ratio analysis does not tell the whole story regarding a firm's financial condition. There may be relevant qualitative factors related to management's business and financial philosophy, corporate diversification and structural considerations, and exposure to legal judgments or penalties. There may be other relevant quantitative factors overlooked in the analysis too. To conduct a thorough review of each management firm, I must have access to

sensitive qualitative and quantitative information about relevant consolidated and unconsolidated corporate structures.

Off Balance Sheet Information: A company's debt balance recorded in its accounting books may be understated from not including off-balance-sheet financing, thus, understating financial leverage. Off-balance-sheet financing includes obligations such as operating leases, debt of joint ventures and unconsolidated subsidiaries, guarantees, receivables that have been factored or otherwise used as security for a loan and contingent liabilities, such as potential legal judgments or lawsuit settlements. To conduct a thorough review of each management firm, I must have access to sensitive qualitative and quantitative information about relevant off-balance-sheet information for consolidated and unconsolidated corporate structures.

B. Timeline for Project

I have received the following information from Mr. Stephen Martino, Executive Director of the Kansas Racing and Gaming Commission concerning the timeline for this project.

All casino management proposals have been submitted to the Lottery. The deadlines vary by gaming zone. From the date the Lottery received the management proposals, it has 90 days to negotiate a contract with the prospective managers. It can seek up to a 60-day extension from the governor to complete its business. Then, all completed contracts are forwarded to the Review Board for examination, hearings, expert testimony and public comment. The board has 60 days to complete its task, with the option of a 60-day extension from the governor. Each zone runs on its own schedule so just because an extension is given in one zone does not mean it will apply to the others. Because all the deadlines for submitting casino management proposals fell within 25 days of each other, the schedule is compact.

The board expects its experts to be available in Kansas for its meetings to present their findings and respond to questions. We are still working on a schedule of how to do this concisely and minimize travel to Kansas, but the schedule for meetings could call for an intense couple of months. Also, the board decided that it would not share consultants with the Lottery, wanting independent voices for its consideration.

After reviewing the information above, provided by Mr. Martino, it appears the financial consultant, selected by the Review Board, will have less than 60 days to examine and prepare expert testimony for each of the management firms entering contracts with the Lottery. Also within the 60 day period for the Review Board, the consultant must participate in administrative hearings.

James Proctor Consulting Services, if selected by the Review Board, will make its services available as needed during the 60 day window so all tasks may be completed. However, it would be helpful, for conducting a thorough review of the casino management firms, if the discovery and examination of financial information can begin as far in advance of the completion of the

final contracts between the Lottery and casino management firms. Beginning the analytical process as early as possible allows for a more complete review of the applicant firms and for provision of the final testimony and exhibits for the Review Board in advance of the administrative hearings.

C. Cost of Services

Cost Proposal

Based upon the information available at this time, it is difficult to estimate a projected budget for the consulting services for the Kansas Lottery Gaming Facility Review Board concerning selection of casino management firms. The budget will depend on: (1) the number of management firms to be reviewed; (2) the complexity of the corporate structure of those firms; (3) the extent to which management interviews must be conducted; (4) the degree of formal oral and written interaction with the Review Board; and, (5) the timeliness of receiving relevant and complete responses to requests for information from those firms.

The charges for services and expenses for the consulting project include the following. The hourly rate for Mr. Proctor is discounted \$30 per hour for this project due to: (1) the Review Board being a state government entity; and, (2) the inability to propose a specific budget at this time.

REIMBURSEMENT COST

1. Hourly rate for principal	\$ 195.00
2. Hourly rate for manager	\$ 150.00
3. Hourly rate for accountant staff/clerical, support	\$ 60.00 to 125.00
4. Cost for supplies and/or reproduction of documents not included above	Actual
5. Other costs not shown above	
Lodging	per Diem
Meals	per Diem
Air fare and non-per Diem travel costs*	Actual

*Per Diem and vehicle mileage reimbursements are based on rates established on an annual basis and paid accordingly.

D. Resumes

Individuals Assigned to Project

James M. Proctor
Principal
5245 Overland Drive
Suite D-6
Lawrence, Kansas 66049
(785) 841-7165

Mr. Proctor is the principal in the firm and assumes overall responsibility for the projects.

Mr. Proctor has twenty-four years experience in regulating public utility companies for two state utility commissions and as a regulatory consultant primarily to state regulatory agencies. As Director of the Public Utility Division of the Oklahoma Corporation Commission ("OCC"), as Chief of Accounting and Financial Analysis for the Kansas Corporation Commission ("KCC") and as a consultant to other state utility commissions, Mr. Proctor has been instrumental in formulating regulatory policy. While Director of the OCC Staff he directed staff's development and presentation of technical and policy recommendations before the OCC in the regulation of natural gas, electric and telecommunication utilities. As Chief of Accounting and Financial Analysis for the KCC, he managed the preparation of testimony and communication before the commission related to regulatory matters involving accounting, financial analysis and quantitative analysis. As Director, Regulatory Policy and Analysis of EnerTran Technology Company, Mr. Proctor was responsible for developing strategic regulatory policy and assisting EnerTran's principles in various aspects of the development of non-utility power generation projects. Most recently, Mr. Proctor has been providing consulting services to regulatory agencies and public utility companies as a regulatory consultant. As a consultant, he provides financial, accounting and policy consulting services regarding the regulation of electric, gas and telecommunications utilities. This consulting experience includes several assignments involving mergers and acquisitions of utilities, generally, and more specifically regarding identifying and quantifying merger synergies and evaluating acquisition premiums.

Education

BBA Washburn University of Topeka, Kansas
Majors: Accounting and Mathematics, 1978

MBA University of Kansas
Majors: Corporate Finance and Operations Research, 1984

Work Experience

1984-1987 Kansas Corporation Commission: Senior Auditor and Financial Analyst, Responsibilities involved supervising audits of utilities, preparing return on equity analysis and provision of written and oral testimony in regulatory proceedings.

1987-1990 **Kansas Corporation Commission:** Chief of Accounting and Financial Analysis, Responsibilities involved hiring, training and supervising accounting and finance staff. Also, prepared expert testimony regarding complex accounting, financial and policy matters before the Commission.

1990-1993 **Oklahoma Corporation Commission:** Director of the Public Utility Division, Responsibilities involved administering division operations, developing regulatory policy and testifying before the Commission and legislature regarding utility regulation.

1993-1994 **Overland Consulting, Inc.:** Director of Financial Analysis, Primary responsibilities included being the project manager for consulting engagements involving telecommunications utilities and directing the financial analysis used in the firm's consulting projects.

1994-1995: **EnerTran Technology Company:** Director, Regulatory Policy and Analysis, Responsible for developing and directing regulatory strategy and financial analysis relating to competition in the generation and transmission of electricity. Also, responsible for developing initiatives to implement regulatory policy change at state commissions.

1995-Present: **Regulatory and Corporate Financial Consultant:** Provides financial, accounting and policy consulting services regarding the regulation of electric, gas and telecommunications utilities.

References

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Areas of Expertise

1. Electric, Natural Gas and Telecommunications Cost of Service Studies
2. Cost of capital issues
3. Financial Analysis
4. Mergers and Acquisitions
5. Cost Allocation Studies
6. Affiliate transactions
7. Corporate Structure
8. Regulatory Policy